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UNEMPLOYMENT ISSUES

HEARINGS

BEFORE THE

SUBCOMMITTEE ON SOCIAL SECURITY AND INCOME MAINTENANCE PROGRAMS

OF THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

FIRST SESSION

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UNEMPLOYMENT ISSUES

FRIDAY, FEBRUARY 18, 1983

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, D.C.

The committee met, pursuant to notice, at 10:05 a.m., in room 215, Dirksen Senate Office Building, Hon. Robert Dole (chairman of the committee) presiding.

Present: Senators Dole (presiding), Chafee, Durenberger, Baucus and Boren.

[The committee press release announcing the hearing and Senator Dole's opening statement follows:]

[Press Release No. 83-109]

FINANCE COMMITTEE RESCHEDULES HEARINGS ON UNEMPLOYMENT ISSUES

Chairman Robert J. Dole (R., Kansas) announced today that the Senate Finance Committee has rescheduled the full Committee hearing on unemployment issues for Friday, February 18, 1983 at 10:00 a.m. The hearing will be held in Room SD-215 (formerly 2221) of the Dirksen Senate Office Building.

Representing the Administration at the hearing will be Labor Secretary Raymond J. Donovan, and Chairman of the Council of Economic Advisers Martin S. Feldstein. A later hearing will be scheduled to receive testimony from public witnesses.

[Press Release No. 83-110]

FINANCE COMMITTEE SETS DATE FOR PUBLIC HEARING ON UNEMPLOYMENT ISSUES

Senator Robert J. Dole (R., Kansas) Chairman of the Senate Finance Committee, announced today that the Committee has scheduled a hearing to permit public witnesses to testify on the Administration's unemployment proposals and to suggest other steps that the Committee might take to address the high rate of unemployment the country is now experiencing.

The hearing will be held on Thursday, March 3, 1983, beginning at 10:00 a.m. in Room SD-215 (formerly Room 2221) of the Dirksen Senate Office Building.

Requests to testify.—Witnesses who desire to testify at the hearing must submit written requests to Robert E. Lighthizer, Chief Counsel, Committee on Finance, Dirksen Office Building, Washington, D.C. 20510, to be received not later than noon on Friday, February 25, 1983. Witnesses will be notified as soon as practicable thereafter whether it has been possible to schedule them to present oral testimony. If for some reason a witness is unable to appear at the time scheduled, he may file a written statement for the record in lieu of the personal appearance. In such case, a witness should notify the Committee as soon as possible of his inability to appear.

OPENING STATEMENT OF SENATOR DOLE—HEARING ON UNEMPLOYMENT ISSUES

It is a pleasure to welcome the Secretary of Labor, Raymond Donovan, to the Finance Committee this morning. Secretary Donovan's testimony will be followed by that of Dr. Martin Feldstein, Chairman of the Council of Economic Advisers. I un-

derstand that Dr. Feldstein, will not be able to join us until 11:00. We look forward to the remarks of these distinguished representatives of the Executive Branch.

Our hearing today focuses on one of the most important domestic issues—persistent high unemployment that is having a devastating effect on millions of Americans and their families. The personal impact of unemployment is great. The fiscal impact on the Federal deficit is also great. For both these reasons, unemployment will be a top priority of the Finance Committee in the coming months.

We are all well aware of the Administration's accomplishments in lowering the rate of inflation. The current pace is one-third that of two years ago, and the Administration deserves credit for this success. Just two years ago, there was widespread skepticism that inflation could be brought below double-digit. All along, this Administration has correctly recognized that sustained full employment would be impossible without achieving price stability first. That is how we must view the welcome drop in inflation—not as a temporary result of the recession, but an essential cornerstone of economic recovery.

Low inflation, however, is of little comfort to an American without a job. The statistics alone paint a dismal picture. The unemployment rate is 10.4 percent, up 3.2 points from the prerecessin low. 1.9 million jobs have been lost since the onset of the recession and 11.4 million Americans are unable to find work. Not all of this deterioration is due to the recession, however. The manufacturing sector has been particularly hard hit, losing 2.2 million jobs in the last 18 months. Many of these jobs will be permanently lost due to the decline of traditional "smokestack" industries. While new jobs will appear in growing sectors of our economy—particularly in the fast-growing "high-tech" industries—many of those laid off will lack the skills to make a smooth adjustment to another industry. These are the structurally unemployed, and their numbers would have increased even without a recession.

Over the past few years, there have been a number of significant changes in the labor market. Dealing with these changes, which have tended to increase the overall level of unemployment, will require carefully crafted policies. For example, the percentage of women and younger workers has increased in the last decade, and these groups tend to experience higher unemployment. An interesting fact is that 57.2 percent of the civilian labor force currently hold jobs—about the same proportion as in 1969, when the unemployment rate was one-third of what it is today! Despite the private economy's current problems, jobs are being provided for a high percentage of the American population.

Any attempt to alleviate structural unemployment by traditional "pump-priming" is doomed to failure, and undoubtedly would bring back double-digit inflation. The Administration recognizes the nature of the unemployment problem, and has rightly focused on the long-term unemployed in its jobs program. A noninflationary recovery will put most workers back on the job. The workers who have little hope of becoming employed, even after the recession has ended, are the ones that need help. The Administration has made several proposals—$240 million in training and job search assistance, an expansion of Federal Supplemental Compensation, converting unemployment benefits into wage vouchers, and a summer subminimum wage for youth. We look forward to hearing the details of this package from Secretary Donovan and Chairman Feldstein.

It now appears that the Administration will propose an additional jobs bill. As I understand it, the package will include a total of $3 billion for supplemental unemployment benefits, about $700 million in humanitarian assistance, and over $3–$4 billion in accelerated public works programs. This is the right approach. Additional jobless benefits and humanitarian aid will cushion those who are waiting for recovery to put them back to work. It also makes sense to speed up spending projects, given that unemployment is high now but expected to fall. It is my understanding that the proposal will seek only to reschedule already-approved funding, and will not add to the cumulative budget deficit.

In my view, we must be cautious about going any further down this path by passing any major new spending bills in an attempt to create jobs. Past experience has clearly shown that such programs are counter-cyclical—they do not begin to provide jobs until the recession is long past. And raising Federal deficits and borrowing would retard job expansion in the private sector.

In my opinion, any jobs package should keep the principle of a healthy economc recovery as its centerpiece, with specific government programs focused on the structurally unemployed. The old method of trying to help along a budding recovery by new public works spending has been tried and failed, and should be rejected.

Fortunately, the signs of recovery are abundant. Industrial production rose .9 percent last month; housing starts were up 36 percent at a 1.7 million annual rate; auto production and sales are up sharply. Even the labor market statistics are turn-

ing positive. The unemployment rate is down by .4 percent nonfarm employment is up as is the average workweek. Further, inflation continues to moderate—last month's wholesale price index actually fell by 1 percent.

Despite the fears and protests of the "doom and gloom" crowd, the economy appears headed toward a noninflationary recovery, the kind we envisioned when the President's economic program was implemented.

I know that this morning's testimony will deal primarily with the issues of unemployment benefits and jobs creation. However, there is no way to ignore the serious deficits facing the Unemployment Trust Fund. The solvency of that fund is in jeopardy—much like the social security trust funds. The difference is that for years the Federal Unemployment Trust Fund has had a direct tap to the General Treasury. When the State accounts became depleted, the States turned to the Federal Unemployment Trust Fund. When that fund became depleted, we turned to the General Treasury.

As you well know, Congress finally put the brakes on unlimited free borrowing by enacting the loan reform provisions of the Omnibus Budget Reconciliation Act of 1981. Interest is now charged on loans other than those defined as "cash flow" and a cap is available on the tax increases which would otherwise take place when States become delinquent in repaying their loans. Solvency criteria were developed with the help of the interested States and in cooperation with the Administration.

Over 25 States have borrowed (as of January 31st) to pay regular benefits and the State share of extended benefits. Additional borrowing by these States is anticipated and other States will need to dip into the Federal Treasury over the next few months. The Department of Labor recently found it necessary to request a supplemental appropriation of some $5 billion to replenish its loan fund.

This is clearly a serious situation. The current loan and interest provisions represent one of the most significant unemployment insurance system reforms of the last few years. This Federal reform has led a number of states to reform their own financing and benefit structures. I am reluctant to tamper with this provision but I do recognize that the current recession has been deeper and more persistent than any of us anticipated in the summer of 1981. We will need to address the solvency issue and I enlist your assistance.

Welcome to the Committee, Mr. Secretary. Your appearance is appreciated.

The CHAIRMAN. It is a pleasure to welcome the Secretary of Labor, Raymond Donovan, to the Finance Committee this morning. Secretary Donovan's testimony will be followed by Martin Feldstein, the Chairman of the Council of Economic Advisers. I think Dr. Feldstein will join us at about 11, which is the time constraint the Secretary has.

Our hearing today focuses on one of the most important domestic issues, persistent high unemployment. It is having a devastating effect on millions of Americans and their families. The personal impact of unemployment is great. The fiscal impact of the Federal deficit is also great. For both of these reasons, unemployment will be a top priority in the Finance Committee in the coming months.

We are well aware of the administration's accomplishments in lowering the rate of inflation. The current rate is one-third that of 2 years ago, and the administration deserves credit for this success. Just 2 years ago, there was widespread skepticism that inflation could be brought below double digit.

All along, this administration has correctly recognized that sustained full employment would be impossible without achieving price stability first. That is how we must view the welcome drop in inflation; not as a temporary result of the inflation, but an essential cornerstone of economic recovery.

Low inflation, however, is of little comfort to the American without a job. The statistics alone paint a very dismal picture. The unemployment rate is 10.4 percent, up 3.2 points from the present prerecession low; 1.9 million jobs have been lost since the onset of the recession; 11.4 million Americans are unable to find work.

So it is on that grim note, Mr. Secretary, that we welcome you to the committee. We are aware of your deep and abiding interest in the problem and your efforts to deal with that. We have appreciated your informal discussions in the past several weeks as we have tried to put together some package that would bring relief to the unemployed and also hold out real hope to those who may be structurally unemployed for a longer period of time.

Senator Chafee, do you have an opening statement?

Senator CHAFEE. Thank you, Mr. Chairman. I want to join in welcoming Secretary Donovan here this morning and to say that he is right on the frontlines of an area that all of us are terribly concerned with, and I know you are also, the high unemployment in the country and the retraining and training of workers for jobs.

The statistics with regard to the decline in blue-collar unemployment—in other words, manufacturing unemployment—is extraordinary. I think that, regretfully, some of those jobs probably will never be recovered because of changes in the economy, the growth of the services industry as opposed to the decline of the manufacturing industry. We look forward today to the suggestions and observations you have on this very important subject. Which is, I think, the most burning domestic issue with the population of the United States.

So, Mr. Secretary, I join in welcoming you here. Thank you, Mr. Chairman.

The CHAIRMAN. You may proceed any way you wish, Mr. Secretary. Your entire statement will be made a part of the record.

STATEMENT OF RAYMOND J. DONOVAN, SECRETARY OF LABOR, ACCOMPANIED BY JOHN COGAN, ASSISTANT SECRETARY FOR POLICY; JIM VAN ERDEN, CHIEF ACTUARY; BERT LEWIS, ADMINISTRATOR, OFFICE OF EMPLOYMENT SECURITY

Secretary DONOVAN. Thank you, Mr. Chairman and members of the committee. It is a distinct pleasure to have the opportunity to address you today.

With me, on my immediate right is Assistant Secretary for Policy, John Cogan, and to his right, Jim Van Erden, our Chief Actuary on Unemployment Insurance Service, and to my left, Bert Lewis, who is the Administrator of the Office of Employment Security.

Mr. Chairman and the committee, as we all know, unemployment is the Nation's No. 1 human and economic concern. The current recession combined with structural change in our economy have caused unemployment for a great many of our fellow Americans. In January, the unemployment stood at 10.4 percent of the civilian labor force. Almost 11½ million Americans were out of work and seeking work. The goal of this administration is to relieve this burden of unemployment. We shall not rest until all Americans have the opportunity to enjoy the fruits of their labor.

Our present unemployment problem is part cyclical and part structural. The cyclical unemployment problem is due to the recession, to the poor performance of our economy, and the only cure for cyclical unemployment is economic recovery. The economic program that this administration and the Congress put into place is

generating an economic recovery. Housing construction and automobile sales are rising. The index of leading economic indicators has steadily improved, and most important, the unemployment rate dropped in January.

But even after the economy has recovered, we will still have a structural unemployment problem. I am here today to present a broad-based set of structural unemployment initiatives developed by this administration. These policies will provide additional financial support to the long-term unemployed and will assist the structurally unemployed in returning to work. Let me highlight briefly the major components of the program.

To assist those individuals who continue to face economic hardship during the coming months, we are proposing to modify and extend for 6 months the Federal supplemental compensation program. The 6-month extension of FSC from April 1 until the end of the fiscal year will provide much-needed additional assistance to the long-term unemployed.

As part of this extension, we are also proposing several important modifications to the FSC program. These modifications will improve the targeting of FSC toward those who are most deserving and most in need, while providing significant cost savings and needed simplification of benefit determinations.

Specifically, we propose to limit FSC benefits to those long-term unemployed who have, first, demonstrated their work force attachment by having had at least 30 weeks of employment during the year preceding their unemployment; and, have neither voluntarily quit their former jobs nor have been fired for good cause.

Further, we propose to replace the existing five tiers of benefits spanning 8 to 16 weeks with a more streamlined, three-tiered program keeping the 8 to 16 weeks range of benefit durations intact. We believe these proposals are both fair and fiscally responsible, and will improve the effectiveness of this vital assistance program.

Given the choice, obviously, Americans would rather have jobs than cash assistance, and it is essential that we help the unemployed find those jobs because most unemployed would rather have a job than a benefit check. We are proposing the extension of FSC be tied in with an imaginative new program; a job voucher program. This program will provide assistance to the unemployed in their efforts to return to work and will spur the creation of new jobs and accelerate hiring as the economy improves.

Unlike the current unemployment insurance rules which require that a worker lose all his or her remaining benefits if he finds a job, the proposed job voucher program will allow the worker to retain his full benefit entitlement. Instead of a cash assistance payment, the worker has the option to receive a voucher which he will take to his employer. The employer can apply this voucher first against his or her employment insurance tax bill, and then against his or her tax obligation. Employers will find that significant cost savings can be realized by hiring unemployed persons who offer job vouchers, thereby spurring the creation of new jobs.

To induce much more lasting attachments for individuals finding jobs under the voucher program, we propose to set up the amount of the vouchers at 50 percent of the weekly FSC benefit, but to double the time period over which the payments may be made. The

individual's total entitlement to benefits would thereby remain unchanged. We also propose that the job voucher program continue through March 31, 1984, which extends by 6 months the FSC termination date of October 1, 1983.

These proposals, Mr. Chairman, to extend and to modify FSC will both ease the transition to prosperity and speed its arrival. Even as the economy improves this year, some workers will find that their former jobs no longer exist or that their skills have been rendered obsolete by technological change or fundamental structural shifts in our economy. We cannot abandon these workers who have suffered so much due to forces beyond their control. If we are to assist these workers to move into tomorrow's jobs, we must insure that they are trained for these jobs.

We believe the unemployment insurance system can be enhanced significantly to improve the occupational and geographic mobility of permanently displaced workers, and the States can be encouraged to take a key role in this retraining effort. We are, therefore, proposing that the Federal Employment Tax Act be amended to allow States to use up to 2 percent of State unemployment insurance tax revenues to pay for training, job search, and relocation assistance.

When combined with the appropriation we are requesting for training programs under the Job Training Partnership Act, this will provide essential training and job placement assistance for over 200,000 displaced workers.

Combined with our efforts to aid adult workers who have been hardest hit by the recession or displaced from long-held jobs, we must attack the unemployment that plagues our young people. Youth unemployment, particularly among black youth, is a social tragedy. We began our fight against youth unemployment last year by enacting the Job Training Partnership Act.

The second component of our fight against youth unemployment involves removing federally mandated impediments to their employment. For many youth, the minimum wage has acted as a barrier preventing them from gaining a foothold on the first rung of the economic ladder. They have been hindered in their efforts to obtain the most important kind of work; work that provides basic job skills training. And to aid in reducing youth unemployment, we are proposing a youth opportunity wage for youth through age 21. This youth oportunity wage will be $2.50 per hour, about a 25-percent reduction from the regular minimum wage of $3.35.

We are proposing that this special youth opportunity wage be effective only during the summer when the greatest number of youth are in the labor market, and, therefore, when our proposal will generate the most employment opportunities. By restricting the youth minimum wage to the summer months, the jobs of older workers will be protected.

To provide an additional incentive to employers, we are also proposing that employers hiring youth under this program be exempt from unemployment insurance taxes on the wages paid to the youth, and the youth correspondingly be ineligible for benefits. Finally, there will be protections in the law to preclude substitution of adult workers for teenagers.

In closing, Mr. Chairman, I wish to express both the administration's and my personal concern that the conditions of those now facing unemployment not only be improved, but be improved dramatically. As the economy moves into a strong recovery, our proposal to extend FSC will help to meet the immediate needs of the long-term unemployed and our job voucher proposal will add momentum to the recovery.

Job training for displaced workers made possible through these proposals will enable those who have borne the costs of technology change to share in our recovery. Finally, training provided by the JTPA combined with the youth opportunity wage will enable many of our youth to gain the experience so necessary for their personal development.

I am optimistic about the year ahead and believe that the proposals we are discussing today are essential in assuring both our future prosperity and the equitable sharing in that prosperity by the American worker.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Mr. Secretary. First, I would like to introduce a statement by Senator Heinz who could not be here today, and indicate that he intends to introduce a bill that would contain a multiyear extension of the targeted jobs tax credit program. That statement will be made part of the record.

[The prepared statement of Senator John Heinz follows:]

STATEMENT OF SENATOR JOHN HEINZ

Mr. Chairman, I commend you for holding these hearings on unemployment issues, and am pleased to join with you in welcoming Secretary Donovan to our committee.

I am becoming, with a great deal of regret, something of an expert on unemployment issues. Frankly, States like my own have been especially hard hit by the depth and duration of the current recession. While the Nation as a whole could rejoice at the news that the national unemployment rate in January fell substantially, we in Pennsylvania had grim news: an increase in unemployment of one full percent point to 13.6 percent in January.

It is heartening to see that Secretary Donovan and the administration have begun to formulate policies designed to combat the social costs of the great structural shifts in our economy. We need innovative ideas to spur employment and to retrain our workforce in expanding industries.

I believe that the administration's proposal to increase spending for the discloated workers program to $240 million is a step in the right direction, and I would support further expenditures to existing retraining programs. We must continue to rely, and fully utilize other programs that have been proven effective in integrating disadvantaged individuals into the labor force. That's why I will be seeking the support of my colleagues on the Finance Committee, and in the Senate, for a multi-year extension of the targeted jobs tax credit.

There is no argument against extending the existing Federal supplemental compensation program through the end of this fiscal year. Adequate assistance to our workers, unemployed through no fault of their own, is the least that we can do during this time of high unemployment. I applaud the administration for seeking such an extension, but we need to recognize the reality that even with this extension, many workers have exhausted their eligibility and thousands more will do so in the weeks ahead.

I would note that several of the large industrial states, like my own, are being forced to borrow heavily from the Federal Government in order to meet the demand for unemployment compensation in our States. I will be proposing legislation, in conjunction with others, to help our debtor States through these difficult times, while ensuring that the Pattern of past profligate spending is not repeated. Mr.

Chairman, you have been very helpful on this subject, and Secretary Donovan and I have already met to discuss this issue. It is important to my State and many others.

Lastly, I would like to urge the administration and my colleagues to join with me in developing a program to provide adequate health coverage to our unemployed workers. With most of the Nation's workforce covered by some type of health plan, many workers find themselves bereft of this essential protection when they become unemployed, and are unable to purchase affordable health care from private insurers. It's a growing problem, and we've got to find a solution.

Thank you.

The CHAIRMAN. Mr. Secretary, I understand that you have legislation in draft form and that we will be getting at least a rough draft sometime today. Is that correct?

Secretary DONOVAN. That is correct, sometime this afternoon we will deliver it to your staff.

The CHAIRMAN. We would appreciate going over it before its introduction. Have there been any figures compiled on what impact the proposed voucher options for Federal supplemental compensation will have? In other words, do we have any estimates that it will be successful?

My own experience with the targeted jobs tax credit program, for example, has been that it has been less than successful, except for a few industries. Is there some indication that the voucher program would be attractive to a number of employers?

Secretary DONOVAN. Yes, Mr. Chairman. It is a far different approach than the targeted jobs tax approach. One targeted jobs tax credit had a "needs" test. It was aimed at a different population than this. We estimate at Labor that in 1983 it will produce 200,000 jobs for long-term unemployed and in 1984, an additional 500,000. I believe those numbers are realistic.

The CHAIRMAN. What about the lowering of the minimum wage for summer jobs for youth to $2.50; is there any evidence that that, in fact, would employ a number of these young people without adding others to the unemployment roles, such as older workers?

Secretary DONOVAN. That has been the historic problem with any discussion of a youth differential before the Congress, and not without some merit. The displacement argument is a fair argument. It is very difficult to determine what amount of displacement there is.

But keeping that in mind, we have designed this program for the Congress consideration to not only minimize but hopefully, to negate that problem. The fact that it is a summer program—and by the way, on your initial question, our numbers indicate anywhere from 150,000 to 640,000 new jobs would be created under our proposal. And if those States with minimum wage laws were to follow this lead, it could exceed 1,000,000 new jobs.

In the law as we propose it, there are protections in the displacement area, and also, protections for other youths who are currently being paid the minimum. The concern is that they would be dropped from the $3.35 to the $2.50. If a youth is earning the minimum wage 90 days before the period covered by our proposal, May 1 to September 30, he cannot be paid less.

We have strong language with regard to displacement, and the FSLA laws are extremely effective in this area. If employers do violate the law, they face a $10,000 fine or 6 months in jail. So we

have designed it keeping in mind the major concerns as expressed by the AFL–CIO many times in the past, and by many members of Congress.

Frankly, Mr. Chairman, we called this situation a national tragedy when CETA began, when the rates were virtually half of what they are now particularly among minorities. I do not know which words to put on the situation that minority youth face out there today.

The CHAIRMAN. Is there some indication that organized labor might be willing to go along with this proposal?

Secretary DONOVAN. I have had several conversations. I doubt it. I would ask not only labor, but the Congress, and the Chamber or whoever else is interested in this to put more light than heat on the subject. It should be kept in mind that Mayor Koch of New York and Mayor Bradley of Los Angeles offered their cities a few years ago as test cities if the Congress and the administration then wanted to have a pilot program. It is not the answer, Mr. Chairman, but it is a tool that is long overdue, in my opinion.

The CHAIRMAN. I agree with that, and I hope we can have some agreement that the important thing is to put young people to work. We hope that everybody can give a little and help us work it out, if not in this program, then in some other program.

I am a little bit confused about whether we are talking about a 6-month or a 9-month FSC program. I think the President mentioned 9 months in his press conference; you are talking about 6 months. Is the 9-month conditional on working out some agreement on the total jobs package? Is that a fair conclusion?

Secretary DONOVAN. That is a fair conclusion, Mr. Chairman. But the President is willing to consider a 3-month extension beyond the 6 in that total bipartisan approach on the jobs bill, as long as it is kept within the $2.9 billion, the $2.95 billion for the FSC program.

The CHAIRMAN. So, the administration's official position today is 6 months, but if in fact there is some agreement concluded with the Speaker and other Members of the House, there might be a 9-month extension?

Secretary DONOVAN. It could well work out to be that.

The CHAIRMAN. Senator Chafee.

Senator CHAFEE. Thank you, Mr. Chairman.

Mr. Secretary, what I am primarily interested in in these programs is the Government taking a hand in training workers to fill jobs that are available or could be available. I think there is massive dislocation taking place, as you are well aware and have mentioned in your testimony.

Regardless of what happens; for example, in the automobile industry, we are not going to see the number of jobs we once saw, even if production increases substantially. The same goes for the steel industry and a host of other manufacturing industries.

My problem with your presentation is that I don't think it sufficiently addresses training and retraining. I share the chairman's skepticism over the targeted jobs credit that we have worked with. On paper it is a great program, but somehow it just does not seem to work, as shown by the testimony we have had. By not working I mean it does not seem to be used.

Consequently, I am wondering about the new voucher program that you are proposing, which I suppose, is oriented toward encouraging employers to take on people. The reward for the employer is that the voucher can be applied against his total unemployment comp taxes, not just the unemployment comp taxes that are due on this employee but on all of his employees, is that correct?

Secretary DONOVAN. That is correct, Senator Chafee.

Senator CHAFEE. You further state that it can be applied against the employers Federal income—it would be rare, it seems to me, that any employer would take on enough employees to vitiate his entire unemployment comp tax. What does the tax run for the employer percentagewise? Is it based on $7,200?

Secretary DONOVAN. It's 2.7 percent.

Senator CHAFEE. The merit rating would vary and the base is what, $7,200?

Secretary DONOVAN. The Federal wage base is $7,000, which is the wage base used in most States.

Senator CHAFEE. So it would be unusual, practically speaking, for an employer to get relief from that tax. Under your program, as I understand it, the voucher would then apply to Federal income taxes. Now, an employer has to make a profit to have Federal income taxes, but he pays unemployment tax regardless of his profits; so this provides something for the employer who may not be making a profit.

Secretary DONOVAN. Yes.

Senator CHAFEE. This is because the unemployment compensation tax applies whether or not a profit is made.

Secretary DONOVAN. Yes; then he can move to his Federal unemployment tax in a sequential manner.

Senator CHAFEE. Now, is this the training part of your program? Of course, you also have the 2-percent set-aside for the State to use for training purposes.

Secretary DONOVAN. Yes; voucher program really is not the training portion at all. It is an employment incentive. The training——

Senator CHAFEE. Well, it is training to the effect that usually employers have to do a certain amount of training. It gets the unemployed into the work force.

Secretary DONOVAN. Yes.

Senator CHAFEE. This is original. I have not heard of this type of program before. It seems to have some merit.

Now, what about the State 2-percent set-aside? The States are already deep in debt to the Federal Government. Is this going to increase their debts?

Secretary DONOVAN. It could, but let me begin it this way, Senator Chafee. We, along with the $240 million that we are seeking under title III of the new Job Training and Partnership Act for displaced workers—and, by the way, this is virtually the first time that the blue-collar worker is being addressed by—let me put it in a negative sense—they were not addressed under the old CETA titles. This is a refreshing departure and a recognition of a problem that started in the 1970's and will grow, I agree with you, Senator, will grow into the 1980's. But that is the basis of it.

We add the features of allowing the States to use up to 2 percent of these receipts at the State level for training, relocation, and paralleling what we are doing at the Federal level with the $240 million. If a State—the extreme situation would be if a State is a borrowing State; yes, we recognize the fact that they would have to borrow federally in order to implement it. But many States—oh, the number; I did not give you the number.

Two percent of the available funds, if the States did choose to go this route, would add $374 million to that program. I want to point out in all fairness, this is a major departure from anything that UI has done before. Let me rephrase it. It is a major departure because UI funds were never used in this way before. That is why I am sure it will create a lot of debate, but we think that debate is healthy; and we think it is a responsible proposal that we have put forward to you.

Senator CHAFEE. Mr. Chairman, may I ask one more question?

The vouchers only go to those who are on the supplemental benefits; is that correct?

Secretary DONOVAN. Yes; at their options.

Senator CHAFEE. Yes; a person who is on the 26-week State benefit, or the 13-week extended benefit, would not be entitled to the voucher.

Secretary DONOVAN. That is correct. They would not have the option there.

Senator CHAFEE. So there is a tilt here toward the long-term unemployed individual.

Secretary DONOVAN. Exactly.

Senator CHAFEE. Which is fine for him, but it adversely affects those who have been unemployed for less than 40 weeks.

Secretary DONOVAN. I do not know whether I would say it goes against. The FSC program, obviously, is designed to kick in after the 26-week exhaustion, and the 39-week exhaustion, and is aimed toward the long-term unemployed. The records indicate that they are in a far more difficult employment situation. So it is targeted to those who need it the most.

Senator CHAFEE. Thank you, Mr. Chairman.

Secretary DONOVAN. Thank you, sir.

The CHAIRMAN. Let me just say we have got another problem that I do not want to get into today. I just wanted to raise it, because there are a number of Governors—in fact, I met with some out in Chicago a few weeks back—who are complaining about loans that they owe the Federal Government and interest payments that they cannot make. They have many ideas on deferring the interest, forgiving the interest, forgiving the loans.

As I understand it, the easy access to the loans before 1981 probably contributed a great deal to the insolvency of the unemployment program. I think we start off with that basic fact. Plus I think a lot of the States were very, very generous in their programs, and that also led to their problems. Many have since tightened up. The State of Michigan, for example, in a special session of the legislature last December made some very draconian changes in their unemployment compensation laws to try to save the system.

Are there examples of other States moving to tighten up their programs rather than to come to the Federal Treasury for loans?

Secretary DONOVAN. Yes, Mr. Chairman. And what the Congress did, I think, was extremely responsible in 1981 and 1982 in imposing an interest rate.

The direct answer to your question is, since you have taken that action and since that became law, 21 other States have made an effort to do what Michigan did. Some have been more aggressive than others. Louisiana, I would say, is a highlight State in addressing the problems that you put so well. But 22 States have taken action.

In our view, I am not sure that they would have been as attentive to the needs of the trust fund and have taken this action if we had not had the interest rates and the cap rules.

The CHAIRMAN. I believe those are the first real restrictions in the program. There is a feeling now among the States that have tightened up—Michigan, Louisiana, Oregon, and others—of little concern about—I will not use the term "bailing out," but making accommodations to other States who have not yet faced up to some of the basic problems in the program.

Secretary DONOVAN. Yes, Mr. Chairman. The point you made earlier, until that law was changed, yes; you are absolutely correct that a major portion of the problem we face today in the trust fund—as of January I think it was nearly $4 billion of the $11 billion as of January 1983, that is old debt from the early 1970's and the mid-1970's because there was no incentive to pay it back. As a matter of fact, many States increased benefits and lowered taxes and helped exacerbate a growing major problem.

The CHAIRMAN. Well, in my meeting with the Governors, and I know you have met with Governors, too, I suggested that we would certainly be willing to work with them. We have been doing that in cooperation with members of your staff to look into some responsible action that might be taken. But I think it must be predicated on their efforts to take responsible action at the State level, and that is the impression I hope I left at our meeting in Chicago.

There is another area that I believe we should at least touch on. It is in connection with the proposal to extend the life of the FSC program. That is a response, obviously, to the continued unemployment, but it does not deal with the issue of unemployed workers who exhaust their present FSC entitlements.

Would you support adding more weeks of benefits for these individuals? I understand there will be about 1.2 million exhaustees of FSC by April 1.

Secretary DONOVAN. Mr. Chairman, when we have to make decisions and proposals, both us as an administration and you in the Congress, the human problems that are out there across this country hang heavily not only on the heart but also in any equation that we try to draw up. But I believe that we have attempted to bring into balance the human concerns and the economic facts and problems that we face with the deficit.

It seems to us that the further we reach back, the less benefits potentially there will be for the people coming on for the first time onto Federal supplemental benefits. We are not unsympathetic, Mr. Chairman, to the point that you raise; but at this stage, we

have not seen a proposal that would change our mind at the moment. But we understand your concern and have it ourselves, but I believe we have approached it in the most human and the most balanced way that we could.

The CHAIRMAN. Senator Durenberger.

Senator DURENBERGER. No.

The CHAIRMAN. Senator Baucus.

Senator BAUCUS. No questions.

The CHAIRMAN. Senator Chafee.

Senator CHAFEE. Thank you, Mr. Chairman.

Mr. Secretary, what disturbs me in your proposed program is that there is no setaside, as there has been in past programs, for assistance to employers who are prepared to conduct a rather substantial training program on their own. Let me give you an example.

We have an employer, our largest employer in the State, Electric Boat, which is prepared to train some 2,000 people for long-term jobs which are immediately available; yet, Electric Boat is finding it difficult to assemble the sums that are required for this training program. I have been told that the Labor Department does not have any funds to make such a contribution.

It seems to me that when we have jobs available where training is required, and the employers are willing to provide the training, there ought to be some mechanism to meet such a worthwhile need.

Could you comment on that?

Secretary DONOVAN. Yes. As you are aware, Senator Chafee, I am very much aware of that exact situation. The example, you and I have discussed it.

Senator CHAFEE. Yes.

Secretary DONOVAN. We did cooperate and train welders, as I recall, for that plant.

Senator CHAFEE. That is correct.

Secretary DONOVAN. I have some encouraging news for you. Under the Job Training and Partnership Act, and particularly the $240 million in title III, there are opportunities for retraining. You talk about Electric Boat being willing to match. Let us talk about title III and the $240 million. It is on a matching basis, Senator, going from zero in the high unemployment States to 50 percent in those States with low-to-average unemployment. But I am certain that with the cooperation of the Governor of Rhode Island or the Governor of any State, that we, between the Job Training Partnership Act as the basic tool and title III of that act, we can arrange matching fund arrangements.

Senator CHAFEE. Fifty percent is the maximum.

Secretary DONOVAN. Fifty percent is the maximum, and zero is the minimum.

Senator CHAFEE. Of the State contribution.

Secretary DONOVAN. Yes.

Senator CHAFEE. Are those dollars there now?

Secretary DONOVAN. Last year, we asked for $100 million for that dislocated worker portion. The Congress gave us $25 million. I was disappointed. But this year I asked for $240 million at the adminis-

tration level, and that is what I hope to have beginning October 1, at the $240 million level.

Senator CHAFEE. I do not want to look a gift horse in the mouth, but the problem is that October 1 is going to be too late. In other words, here is a program which is ready to be started and has a lot of enthusiasm behind it. All it needs is funding assistance. It seems to me, that we should be addressing this type of situation now when it is most needed.

Secretary DONOVAN. But, Senator, under the Job Training and Partnership Act itself, leaving aside for a moment title III, the Governor and the advisory council and the PIC's have a lot of flexibility in job training for those welders at the boat company.

Senator CHAFEE. Well, you and I can talk some more about this. I just wanted to express my concern.

We have talked about unemployment compensation and the need for tightening up by State systems. As the chairman has mentioned, this has taken place in some States. It seems to me that if we recognize that tightening up the unemployment compensation system is needed, then we ought to do it in the Congress. For example, currently unemployment benefits are being paid to people they were never intended to cover; for instance, school bus drivers or school lunch workers who clearly are hired for a certain period which they realize when they accept the job. Yet, for example, in my State, they do collect unemployment compensation.

Now, this is not what the program was designed for. It was designed to take care of those people who are truly unemployed. These are the people we should be most concerned about. It seems to me that that is the kind of tightening up that ought to be considered by the legislation you submit.

Secretary DONOVAN. I appreciate what you said, and it is true.

I should add, a voluntary quit from a job was never contemplated to be covered by unemployment compensation, nor was fired for cause. These are some of the changes that should have been addressed, and frankly, we have the courage to propose, and we are asking the Congress to consider.

Senator CHAFEE. Are they in this program?

Secretary DONOVAN. Yes; for FSC programs, Senator Chafee.

Senator CHAFEE. I have one more question, but I notice my time is up.

The CHAIRMAN. Go ahead.

Senator CHAFEE. Mr. Secretary, the youth minimum wage, is something we have discussed time and time again in Congress. When I first came to the Congress, it was voted on and, I was extremely sorry it didn't pass. Since then, however, I have made some surveys at home and talked with employers, and frankly, they did not indicate that the wage differential was a significant factor in hiring.

Do you have any indication that 25 percent is enough of a temptation for an employer to step out and hire one of these youngsters who presents training problems and other challenges?

Secretary DONOVAN. Yes, we do, Senator. There are many independent studies that address it and conclude from both sides, but I think the preponderance of the evidence is that it can and will make a significant difference.

We talk about displacement. I think—I hope our program as presented prevents you from having too much fear in that area. But there is also a feeling in this country that there is an exhaustible amount of that type of low-skilled job. Obviously, those jobs start the youth out on a correct path, in getting discipline in coming to jobs, in learning the rudimentary things about the transition from school to work.

I am convinced that it can make a significant difference. I say this: We have tried to build in as much protections as possible. I say please try it, because the tragedy, particularly among the minorities, as I say, is growing.

Senator CHAFEE. Well, Mr. Secretary, I am not wild about it, but I am not sure who has a better suggestion. That is the trouble. Everybody will criticize this, but no one seems to come up with a better idea.

I share your concerns about the program. As I have said I feel some skepticism toward it, but I see the statistics that have been cited, and I know them well. No one else seems to have a better idea. I am inclined toward giving it a chance.

Secretary DONOVAN. Thank you, sir. I feel likewise.

The CHAIRMAN. Mr. Secretary, I failed to ask one question. In addition to all the problems of just being unemployed, there is a very real problem in the fact that health insurance coverage expires for many unemployed workers. It is a matter that we have discussed informally. I know it is a matter that you have been trying to find some solution for.

Will there be any recommendation by the administration for how we might help the unemployed who have lost health coverage for themselves and their families? Some States, I understand Minnesota may now have a plan. But I am wondering if we can offer any help to these people as far as health coverage?

Secretary DONOVAN. First I will say coming from where I came from—and I remember the latter years of the Depression, for the unemployed to have to make a decision about a bowl of soup or an appendectomy for their son is as tragic a thing as I can imagine, that constant concern and worry.

Obviously, we recognize that there is a need there. We have no proposal.

The CHAIRMAN. Would there be anything wrong with deducting a certain amount from the FSC benefit to provide limited health coverage?

Secretary DONOVAN. I was about to say I am not as familiar with Minnesota as Senator Durenberger, and I would like to hear about it; but I know of the proposal in Pennsylvania. It is quite simple in its approach, and really the benefit is or the program is first a deduction from their UI claims benefits; but it would be a group rate and probably say 20 or 30 percent. I applaud that type of constructive approach.

If anyone has any suggestions like that, I think they should be aired.

The CHAIRMAN. I appreciate that. It's an area we have some interest in. Perhaps Senator Durenberger could tell us about Minnesota.

Secretary DONOVAN. I would stress, though, that anything that we come up with should be voluntary, don't you think?

Senator DURENBERGER. I thank you, Mr. Chairman, for the opportunity to ask a couple of questions. I will not try to explain our plan, but I would just say that we are digging into the issue—perhaps not so much because someone has invented a solution, but because some of us on this committee think we might have a vehicle in a relatively unpopular tax change to do something about it.

My curiosity, though, Mr. Secretary, is this. I listened to you repond to this question, and I listened to you respond to Senator Chafee's question about the school lunch workers; and the question that occurs to me is, If we do not think about what policy unemployment compensation—what national policy the unemployment compensation system is supposed to serve in a time that we are living with 12 million real life examples, when in the world are we ever going to think about it?

We are not going to think about it when it's a 5-percent problem or a 6-percent problem or one of those fluctuating in and out problems, because those are the times we extend it to new groups of people.

We have now been living for the better part of 2 years with a whole lot of real life examples of what it is like to be out of work for some period of time. We are living with advice from I guess the next witness that will be that for some very substantial time in the future we will have a fair amount of unemployment in this country.

It seems to me if ever there was a time when this administration should come to the Congress with some proposals about a realistic unemployment compensation system, this would be the time.

One specific example from my State, for example—we changed our unemployment comp laws to deny benefits to those whose income exceeds three times the statewide annual rate. Now, we may be in effect at variance with national law. I do not know whether we're going to lose out because we decided to move toward income testing.

We have the problem in our State, as we have in other States, of not having an area trigger; so we sit up there on the Iron Range with 23 percent unemployment in one county and 34 percent in another county and so forth, but unemployment statewide not enough to qualify for extended benefits. We would love to have an area trigger.

Related to that, of course, is the problem of job search. Where in the world do you find a job in the middle of 34 percent unemployment? You do not. The employers are going belly up, to say nothing of the folks themselves.

So as you go through this, and my little experience in 4 or 5 years on this committee, there has never seemed a better time for all of us to come to grips with the function of this system.

I acknowledge that it was never a national system. It was always basically a State system. But only Wisconsin way back before the Depression had the nerve to stand up and say you know, despite the economic warfare that this might cause or the problems of disparity this might cause, we are going to have a system. Then the

National Government came along and said everybody ought to have a system like this.

It seems to me that this is an awfully good time to find out what way the national legislation might facilitate more imaginative use of State unemployment compensation.

Secretary DONOVAN. I agree. But I would say this administration and the Congress over the last few years has made more progress than any in the past.

As far as unemployment is concerned, we feel we are here and other members of the administration are coming forward with imaginative proposals to attack unemployment. And we have talked about some of them today.

But the political courage it takes to address this unemployment insolvency issue is something that we are all going to have to take a deep breath and face. It goes to many of the points that you raised.

But we have many States all with varying plans and varying amounts of pressures, political and otherwise. That is why I would say the actions that have been taken by this administration and the two Congresses have done important things in the cap and the interest rate approach, because once we all become solvent again, I believe that is the atmosphere in which to address the complicated issues you have raised this morning, Senator.

Senator DURENBERGER. What have we done about the area trigger, for example? What is wrong with the area trigger for extended benefits?

Secretary DONOVAN. At present?

Senator DURENBERGER. We do not have one at present. What is wrong with having one?

Secretary DONOVAN. A national one?

Senator DURENBERGER. It would be applied across the country, but it would be triggered by specific regions within a State; people, for example, who had lost their job in that region or who were in that region——

Secretary DONOVAN. I brought these guys with me, and they haven't answered one yet.

Mr. COGAN. Senator, the basic problem is that at present it is simply not feasible. How do you define the local area? Does it have to coincide with the local area unemployment data that the BLS now collects, which in many cases is what we would have to call data that has a large amount of statistical error in it? Do we define the local areas including a place of residence or place of work? Administratively, having a local area trigger is simply not feasible at the present time, given the kinds of data that the Bureau of Labor Statistics collects.

Secretary DONOVAN. Did you understand that?

Senator DURENBERGER. I understand the answer. I have heard it before.

The CHAIRMAN. It is a very good answer, but it does not address the problem.

Senator BAUCUS. Then, as I understand, Mr. Secretary, you need to leave fairly soon. Then we have our next witness here.

Thank you, Mr. Chairman.

Mr. Secretary, I have one fairly quick question, not in the jurisdiction of this committee but directly related, I think, about the Job Services Office and the Job Services program.

As I understand it, Western States under the new allocation formula are in a more difficult position because effectively their funds are cut back. The more thinly populated States are cut back, as a practical matter, compared to the more populated States.

Because unemployment insurance claims have to be filed in person, it is important for States like Montana which have a lot of small towns, it is important in that part of the country to have local offices open, not closed. As a practical matter, because of some cuts and also because of some changes in the Job Training Partnership Act, these offices are being cut back.

Would you comment on that, please, and try to give us some assurance that the Western States will have Job Services offices?

The CHAIRMAN. The Midwestern States.

Senator BAUCUS. Obviously, with the job situation the way it is, it is very important to have the Job Services offices open.

Secretary DONOVAN. In the new grants to States in that area, Senator, you are correct that some States will suffer somewhat. But none, as I am told, will have less than 90 percent of the dollars they had previously.

Is that correct?

Mr. LEWIS. Yes.

Senator BAUCUS. My understanding is that in Montana we are going to lose 40 percent of our staff.

Secretary DONOVAN. Forty percent of your staff?

Senator BAUCUS. That is right. Forty percent of the Job Services staff, due to the reallocation combined with, as I understand it, the level of funding combined with the prior year.

Secretary DONOVAN. Let me have Mr. Lewis throw some light on this.

Mr. LEWIS. Senator Baucus, I believe you are referring to the new formula contained in the Wagner-Peyser amendments as part of the Job Training Partnership Act. The new formula provides for a rolling hold-harmless. Each year, beginning in fiscal year 1984, the State would be held to no less than 90 percent of its share of the prior year's allotment.

The implementation of those amendments is just now beginning. The preliminary planning figures are not scheduled to go out until mid-March. There is a provision in the statute which requires the Secretary to reserve up to 3 percent of the funds provided for the formula allocation to resolve problems of States that have low population densities and large geographies. The matter is being staffed out and has not been brought to the Secretary's desk yet for his review.

Senator BAUCUS. I intend to look into this, and I am sure my office will be joined by the Senator from Kansas' office.

It is obvious that sometimes the jobs are not there, but at least to the degree they are there, it is important to have the offices open in the smaller communities. It is tough to travel long distances, even 200 or 300 miles away in a State as thinly populated as Montana.

Secretary DONOVAN. We will, sir.

The CHAIRMAN. Thank you, Senator Baucus, for raising the question. It is an important point in every State but particularly in States where you have long distances to travel.

Mr. Secretary, unless Senator Boren has any questions, we can probably move on to the next witness.

Senator BOREN. No, thank you.

The CHAIRMAN. We appreciate your appearance very much. We will be working with you and look forward to receiving the draft this afternoon.

Secretary DONOVAN. Thank you, Mr. Chairman and members of the committee.

The CHAIRMAN. We may also have questions in writing.

Our next witness is the Chairman of the Council of Economic Advisers, to give us the good news on the economy, the robust speed-up of the recovery. Dr. Feldstein, just give us the good news first.

STATEMENT OF RAYMOND J. DONOVAN
SECRETARY OF LABOR
BEFORE THE
COMMITTEE ON FINANCE
UNITED STATES SENATE

February 18, 1983

Mr. Chairman and Members of the Committee:

It is a distinct pleasure to have the opportunity to address you today.

As we all know, unemployment is the Nation's number one human and economic concern. The current resession combined with structural change in our economy have caused unemployment for a great many people. In January, the unemployment rate stood at 10.4 percent of the civilian labor force. Almost eleven and one-half million Americans were out of work and seeking work. The goal of this Administration is to relieve this burden of unemployment. We shall not rest until all Americans have the opportunity to enjoy the fruits of their labor.

Our present unemployment problem is part cyclical and part structural. The cyclical unemployment problem is due to the poor performance of our economy. The only cure for cyclical unemployment is economic recovery. The economic program that the Administration and Congress put in place is generating an economic recovery. Housing construction

and industrial production is improving, the index of leading economic indicators has steadily improved, and, most important, the unemployment rate dropped in January.

But, even after the economy has recovered, we will still have a structural unemployment problem. I am here today to present a broad-based set of structural unemployment initiatives developed by the Administration. These policies will provide additional financial support to the long-term unemployed and will assist the structurally unemployed in returning to work. Let me briefly highlight the major components of the program.

To assist those individuals who continue to face economic hardship during the coming months, we are proposing to modify and extend for six months the Federal Supplemental Compensation program (FSC). The six month extension of FSC--from April 1 until the end of the fiscal year--will provide much needed additional assistance to the long-term unemployed.

As part of this extension, we are also proposing several important modifications of the FSC program. These modifications will improve the targeting of FSC toward those who are most deserving and most in need, while providing significant cost savings and needed simplification of benefit determinations. Specifically, we propose to limit FSC benefits only to those long-term unemployed who:

- o have demonstrated their workforce attachment by having had at least 30 weeks of employment during the year preceding their unemployment, and
- o have neither voluntarily quit their former jobs nor been fired for good cause.

Further, we propose to replace the existing five tiers of FSC benefits spanning 8 to 16 weeks with a more streamlined three-tiered program, keeping the 8 to 16 week range of benefit durations intact. We believe these proposals are both fair and fiscally responsible, and will improve the effectiveness of this vital assistance program.

Given the choice, however, Americans would rather have jobs than cash assistance, and it is essential that we help the unemployed find jobs. We therefore are proposing that the extension of FSC be tied in with an imaginative new program: the job voucher program. This program will provide assistance to the unemployed in their efforts to return to work, it will spur the creation of new jobs and accelerate hiring as the economy improves.

Unlike the current unemployment insurance rules, which require that a worker lose all his or her remaining benefits upon finding a job, the proposed job voucher program will allow the worker to retain the full benefit entitlement. Instead of a cash assistance payment, however, the worker will receive

a voucher to take to an employer. The employer can apply this voucher first against its unemployment insurance taxes or if the value of the vouchers exceeds its liability for unemployment insurance taxes, then against its Federal income taxes. The unemployment trust fund will be reimbursed from general revenues so States will not be penalized. Employers will find that significant cost savings can be realized by hiring unemployed persons who offer job vouchers, thereby spurring the creation of new jobs.

To induce more lasting attachments for individuals finding jobs under the voucher program, we propose to set the amount of the voucher at 50 percent of the weekly benefit under FSC, but to double the time period over which payments may be made. The individual's total entitlement to benefits would thereby remain unchanged. We also propose that the job voucher program continue through June 30, 1984.

These proposals to extend and modify FSC will both ease the transition to prosperity and speed its arrival. Even as the economy improves this year, some workers will find that their former jobs no longer exist or that their skills have been rendered obsolete by technological change or other fundamental structural shifts in our economy. We cannot abandon these workers who have suffered so much due to forces beyond their control. If we are to help these workers move into tomorrow's jobs, we must ensure that they are trained for those jobs.

We believe the unemployment insurance system can be enhanced significantly to improve the occupational and geographic mobility of permanently displaced workers, and the States can be encouraged to take a key role in this retraining effort. We are therefore proposing to allow States to use up to 2 percent of State unemployment insurance tax revenues to pay for training, job search and relocation assistance. When combined with the appropriation we are requesting for training programs under the Job Training Partnership Act (JTPA), this will provide essential training and job placement assistance for over 200,000 displaced workers.

Combined with our efforts to aid adult workers who have been hardest hit by the recession or displaced from long-held jobs, we must attack the unemployment that plagues our young people. Youth unemployment, particularly among black youth, is a social tragedy. We began our fight against youth unemployment last year by enacting the Job Training Partnership Act.

The second component of our fight against youth unemployment involves removing federally mandated impediments to their employment. For many youth, the minimum wage has acted as a barrier preventing them from gaining a foothold on the first rung of the eonomic ladder. They have been hindered in their efforts to obtain the most important kind of work--work that provides basic job skill training. To aid in reducing youth unemployment, we are proposing a youth opportunity wage for

youth under age 22. This youth opportunity wage will be $2.50 per hour, about 25 percent below the regular minimum of $3.35.

We are proposing that the special youth opportunity wage only be effective during the summer, when the greatest number of youth are in the labor market and, therefore, when our proposal will generate the most employment opportunities. By restricting the youth opportunity wage to the summer months, the jobs of older workers will be protected. To provide an additional incentive to employers, we are also proposing that employers hiring youth under this program be exempt from unemployment insurance taxes on the wages paid to the youth and the youth correspondingly be ineligible for benefits. Finally, there will be protections in the law to preclude substitution of adult workers by teenagers.

In closing, I wish to express both the Administration's and my personal concern that the condition of those now facing unemployment be improved. As the economy moves into a strong recovery, our proposal to extend FSC will help meet the immediate needs of the long term unemployed, and our job voucher proposal will add momentum to the recovery. Job training for displaced workers made possible through these proposals will enable those who have borne the cost of structural change to share in our recovery. Finally, training provided by the JTPA combined

with the youth opportunity wage will enable many of our youth to gain the experience so necessary for their personal development.

I am optimistic about the year ahead, and believe that the proposals we are discussing today are essential in assuring both our future prosperity and the equitable sharing in that prosperity by the American people.

Mr. Chairman, this concludes my prepared statement. I and my staff will be glad to answer any questions you may have.

STATEMENT OF MARTIN FELDSTEIN, CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS

Mr. FELDSTEIN. Thank you very much, Mr. Chairman.

I have good news. I will be happy to tell you the good news. But I do have a general statement about unemployment, and then I would be happy to answer questions about forecasts or about other specific legislative aspects.

The CHAIRMAN. Repeal of withholding? Go ahead, make the statement. It will be made a part of the record.

Mr. FELDSTEIN. The administration believes that unemployment is now the most serious economic problem facing the United States. In January, the unemployment rate was 10.4 percent, and there were more than 11 million individuals who were not working and were classified by the Labor Department as unemployed. Nearly 60 percent of the unemployed had lost their previous jobs and were either looking for a new one or waiting for recall by their previous employer. Nearly 2 million of the unemployed were teenagers who were looking for their first job or otherwise struggling with the difficult transition from school to work.

Although unemployment is always undesirable, it is likely to be particularly painful to the long-term unemployed. About 40 percent of the unemployed have been unemployed for more than 14 weeks, and nearly one-fourth have been unemployed for 6 months or longer.

In thinking about policies to reduce unemployment, it is important to distinguish between cyclical and structural unemployment. Even if the economy were not in a recession, there would inevitably continue to be some unemployment as individuals change jobs, as individuals enter the labor force and so on. There is a floor level of unemployment below which the unemployment rate cannot be depressed and maintained without putting excessive strains on the labor and product markets, strains that would cause the inflation rate to spiral higher and higher.

This floor on the unemployment rate, which may be called the "inflation threshold unemployment rate," is now probably between 6 and 7 percent. If we take the inflation threshold rate to be 6.5 percent, we can divide the current unemployment into a 6.5 percent inflation threshold or structural component and a 3.9 percent cyclical component. Thus, about 4 million individuals, or 38 percent, of the current unemployed are cyclically unemployed.

It is important to reduce both cyclical and structural unemployment, but the methods of reducing these two components are very different.

Before looking at the policies and prospects for reducing unemployment, it is useful to look at how the labor market has functioned in the last 12 years or so. Because of the current high unemployment rate, it is easy to complain that the labor market works badly and bemoan the fact that it has recently failed to provide jobs for all those who want them.

In fact, the experience of the last 12 years shows the opposite, that the U.S. labor market works extremely well at providing jobs for a rapidly expanding work force. Between 1970 and 1982, the number of employed persons grew by 21 million. The labor force

participation of females grew from 43 percent to nearly 53 percent. The number of employed women rose by nearly 50 percent. Their unemployment rate is now actually lower than that of men.

Over a long period, the labor market has also responded well to the changing mix of education skills and has employed a rapidly growing share of college graduates without any significant increase in their unemployment rate.

This very good performance stands in sharp contrast to the European experience of the past decade. I recently accompanied Vice President Bush on his trip to Europe. We were frequently reminded that the unemployment rate in the European Economic Community has risen every year since 1973 and now stands at more than three times the rate of a decade ago.

Even more disturbing, European employment is now actually lower than it was in 1970. I will return to the reason for this difference and the implication for the United States toward the end of my prepared remarks.

First, however, I want to discuss cyclical unemployment. There is only one thing that can eliminate the cyclical unemployment in the United States: a sustained economic expansion. An economic recovery is by far the best jobs program. Indeed, it is the only jobs program that really works.

As you know, the Department of Labor recently announced that private employment in the United States rose by 340,000 between December and January. Imagine how much would have to be spent on a so-called "jobs program" that was aimed at providing that many jobs. At $15,000 per job, the Government would have to pay $5 billion to hire 340,000 individuals.

However, since not everyone who was hired in such a program would otherwise have been unemployed and since the Government borrowing would crowd out private spending, many of the newly created jobs would be offset by a reduction in private employment. Thus, creating 340,000 additional jobs would cost far more than $5 billion.

The potential job-creating effects of a public employment program are simply dwarfed by the likely accomplishments of a natural economic recovery. The administration forecasts that even with a moderate recovery that raises real GNP by 3.1 percent in 1983 and 4 percent in 1984, there will be 2 million more people employed a year from now in the first quarter of 1984 and 5 million more employed by the first quarter of 1985.

By 1988, continued real economic growth at 4 percent a year can eliminate all cyclical unemployment. Evidence is accumulating that indicates that the United States either is or soon will be in an economic recovery that can provide those jobs.

In addition to the recent rise in employment, we have seen an increase in average working hours per week, a rise in new orders, a turnaround in the backlog of unfilled orders, an increase in industrial production and many other signs.

In arguing against specific job-creating Government programs, I am of course not unaware of the Keynesian theory that an increase in Government spending can, by increasing total demand, lead to a higher level of output and employment in the economy.

But even the most ardent Keynesian is likely to feel that a budget deficit of more than $200 billion in 1983 represents sufficient fiscal stimulus. Indeed, increases in Government outlays aimed at increasing employment may be counterproductive. If the increased deficits in 1983 are interpreted as an indication that deficits will continue to grow in future years, the current deficits may induce disproportionately large increases in long-term interest rates during the present year. The result would be a greater decrease in private employment than the initiating increase in public employment.

Although additional Government spending on labor-intensive activities cannot be justified in Keynesian terms or as a method of pure job creation, there is a simple but important reason why it can be desirable to speed up some Government projects that would otherwise be done in the future.

To the extent that labor and plant capacity that would be used in such projects would otherwise be unemployed this year, the true cost of doing the projects now is less than it would be later when there is less unemployment.

I say "true" cost because even if the dollar outlay is the same, the cost is less now in the sense that the resources that are used would otherwise be nonproductive. In the technical language of economics, the projects may be worth doing now because the "opportunity cost" or "social cost" of the resources are lower now than later.

If some prospective spending in future years is shifted forward for this reason, it must be made very clear to the financial markets and others that advancing the date of future outlays does not mean an increase in cumulative Government spending and cumulative deficits over the next several years as a whole.

The prospect of enlarged cumulative deficits and the resulting increases in the Government debt could, by suggesting a reduced determination to control deficits in future years, cause a rise in interest rates that would result in a reduction in private spending that exceeds the increase in Government outlays. This would hurt the recovery and mean that the cost of the Government spending was very high indeed.

Let me now summarize what I have been saying about cyclical unemployment. First, an economic recovery and sustained expansion is the only way to get a substantial and lasting reduction in cyclical unemployment.

Second, programs aimed at creating jobs by direct public hiring or Keynesian expansion of demand are inefficient and may be counterproductive.

Third, a rescheduling of Government spending on maintenance or capital investment from future years to 1983 may be a desirable way of reducing the real social costs of providing Government services.

Although the Government's role in countering cyclical unemployment is best limited to the provision of monetary and fiscal conditions that are conducive to a sustained economic expansion, there is scope for a more active role in Government policy in dealing with the special structural employment of young people, of the low-skilled disadvantaged groups, and of the long-term unem-

ployed. For each of these groups, the ordinary working of the market may fail to achieve appropriate employment.

Moreover, in each case the individual may benefit from additional formal training or on-the-job training that might only be possible with Government assistance.

The President will soon submit to Congress his Employment Act of 1983. This and other legislation will strengthen and expand the opportunities for training and on-the-job experience. It will also make it easier for the long-term unemployed to return to work.

Among the specific proposals are: The provision of $240 million in the training and job search assistance of the structurally unemployed; a granting of permission to States to use the unemployment insurance tax to finance retraining and job search assistance; a lower minimum wage for youths in summer months to make it possible for firms to hire and train many of those who are now precluded from such opportunities; an extension of Federal supplemental compensation to support the long-term unemployed; and a new feature of the Federal supplemental compensation that would permit eligible individuals to convert their weekly benefit into a voucher that would help them find and keep employment.

These new programs supplement the Job Training Partnership Act which was enacted last year and provides $1.9 billion to provide training for poor and young people and over $1.2 billion to help youth through the Job Corps and summer youth employment programs.

In addition, the targeted jobs tax credit and the special targeted jobs tax credit for summer youth employment are also potentially helpful.

I mentioned at the beginning of my testimony the substantial difference between the European and American experience with employment and unemployment over the past decade. In the U.S. labor force participation grew and employment is now more than 20 percent higher than a decade ago.

Among the 10 countries of the European Economic Community, total employment is actually lower than a decade ago. The unemployment rate in the United States rose from 5.6 percent in 1972 to 9.7 percent last year. But in comparison, the unemployment increase in Europe was much greater, from 2.7 percent in 1972 to almost four times as much, 9.4 percent, in last year.

Although there are no doubt many reasons for the substantially different employment experiences of the United States and Europe, economic researchers who have studied this question emphasize the greater flexibility of real wages in the United States. It is widely recognized that the sharp increases in the prices of oil and other raw materials in 1973 and in 1979 reduced the real incomes of the United States and of other oil-importing nations and raised the real incomes of the oil-exporting nations.

Moreover, within nations there was a transfer of income to owners of oil from all other groups in the economy. This inevitable reduction in the real incomes of those who do not own oil meant that businesses would earn lower profits and that employees would earn lower real wages.

This is just what we have seen in the United States the past decade. The profitability of the nonfinancial corporate sector in the

past decade has been lower than in the two preceding decades, even when adjustment is made for differences in business cycle conditions. Real wages in our country have also grown much more slowly in the last decade than they did in the preceding 20 years.

This downward adjustment in real wages relative to what they might have otherwise been permitted employment to expand substantially and prevented a substantial secular rise in unemployment.

In contrast, real wages in Europe did not adjust adequately to the higher prices of energy and other raw material imports. With real wages too high, firms could not afford to hire enough employees to keep the unemployment rate from rising year after year.

Moreover, the unwarrantedly high real wages have depressed profits and thereby discouraged investment in new plant and equipment.

While this explanation oversimplifies the situation and ignores the important growth of employment that has occurred in Europe in some industries, I believe that it correctly portrays the prime reason for Europe's sustained employment problem.

There is, of course, a similarity between general European experience and the employment problems in some American industries. This common experience confirms that when real wages are too high, employment and output will inevitably decline.

In those industries where high real wages are not matched by comparable productivity, we, in this country, will continue to see declining employment and the suffering of dislocated workers. Fortunately, however, the problem of excessively high real wages is not widespread in the American economy. We can be grateful for the vitality and flexibility of the American labor market that has over the years responded so well to substantial changes in supply and demand.

As the economic recovery progresses, our economy will provide millions of additional jobs. It is important now that the Government direct its attention to the most critical problems of the structurally unemployed and avoid doing anything that might reduce the prospects for a sustained recovery. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Dr. Feldstein.

Last month the unemployment rate declined to 10.4 percent, which was the rate that you had forecast for the last quarter of this year. Are we going to see further declines, or are you sticking with your original forecast? Will you lower the forecast?

Mr. FELDSTEIN. We have not changed the forecast, but obviously, the employment news we saw in January was very welcome. If that unemployment rate decline is real, then I would expect to see a lower unemployment rate by the end of the year.

One of the disturbing things about the unemployment rate decline, as no doubt you know, is that it was matched by a decline in the labor force, so that the decline in all unemployment was a result of fewer people looking for work rather than more people actually employed.

Well, that just does not make sense to me. I do not believe those statistics are giving an accurate picture. I believe they are giving seasonal adjustment problems. I believe a more accurate picture would be a survey of the establishments done at the same time to

show that employment did increase by 340,000 between December and January.

Again, I caution against putting weight on the precise number, because most of the increase was in construction and retail sales, and those are the two industries we would expect seasonal adjustments in at this time. So I would like to see how the February and March numbers come in before I think much harder about our outlook for employment at the end of the year.

The CHAIRMAN. You indicated you had some good news. Is that in your statement?

Mr. FELDSTEIN. I said it very quickly in my statement. I do think there has been a lot of economic good news, especially in the last few weeks. As you know, we have been seeing leading indicators rising for almost a whole year. We have not seen any indications of actual increases in current economic activities, just promises of things that might happen in the future. Now in the last month, we have seen an increase in employment, we have seen an increase in average hours, we have seen an increase in the number of the industrial production number, and now we have seen a surge in housing starts. If all that keeps up, I believe we will be well launched into an economic recovery.

The CHAIRMAN. I also notice—although it does not have strictly to do with the employment picture—but you make some statement on indexing, about the importance of retaining indexing in the code. I share that view. I do not agree with those who opposed it and now want to repeal it, but I cannot recall precisely what you said. It was fairly significant.

Mr. FELDSTEIN. I do believe that keeping indexing is very important. I am very pleased that you have that view. I know the President is very pleased. I believe that indexing is critical not only for the fairness of our tax system, but also what it means for the current economic recovery.

I believe that if Congress were to repeal the income tax indexing feature that is now scheduled to start in 1985, if we had deindexing of the tax laws at this point, I believe that would be taken as a signal that we will be moving back to higher rates of inflation.

Indexing really matters most when there is a substantial amount of inflation. The extra revenue that would come from deindexing is relatively small at existing and projected rates of inflation. But eliminating indexing, moving to a much higher rate of inflation, would of course produce a lot of revenue.

I believe that the immediate impact of eliminating indexing would be higher interest rates and a weakened recovery because of increased fear of inflation.

The CHAIRMAN. On another related matter, there is a lot of concern about high interest rates. Some have suggested that perhaps the banks are keeping the interest rates up. They have expressed a great concern about the provision for withholding on interest. It amounts to about 50 cents or less than 50 cents per $1,000 of interest. The banks are all worked into a frenzy over that.

Is there any evidence that the banks have been profiting from excessive interest rates? They profit in a lot of other areas. Many of them do not pay taxes. But what about that? Do you think the banks are keeping interest rates up?

Mr. FELDSTEIN. I think that, in effect, the banking system is a very competitive system. I think that most of the loans being made by the banks are being made at market rates over which they have very little influence. The commercial paper rate, the Treasury bill rates, are set in national and indeed international markets. I have been told about 90 percent of all of the money being loaned out by banks is not being loaned out at the prime rate or higher but is being loaned out at the competitive market rates where the banks just have to meet the competition from commercial paper rates that the large borrowers could otherwise get.

So I really do not think that there is much in the notion that the banks, because they would like to make higher profits, offset the potential losses on previous loans and have somehow been able to jack up their interest rates. That is not to say they would not like to.

The CHAIRMAN. I understand that. But I want to pursue this for just 1 minute. They are—as I have indicated—they are very concerned about their depositors, and have issued some very misleading advertising—in fact, outright false advertising which says your savings disappear.

If they are so concerned about that, why is that you cannot have a new money market fund with less than $2,500? Why not have it at $100?

By keeping a high limit, you force people to keep money in their passbook savings account, which pays only 5 percent. If Congress or the administration would change the $2,500 to $500, then these people they are so concerned about—could make $25 interest on $1,000.

It seems to me we have only recently discovered the great concern banks have expressed about their depositors and their willingness to help their depositors to make every cent they can. I would hope the administration would take a look at lowering this $2,500 amount for smaller depositors. Lower it to $100. Then instead of making passbook interest at 5.5 percent—what is the going rate, about 9 percent?

Mr. FELDSTEIN. A little less than that, but certainly more than 5 percent.

The CHAIRMAN. I think the banks could make a great contribution and their recent public spirit would be vindicated. Do you think that is a possibility?

Mr. FELDSTEIN. It is certainly something we should look into. I believe looking into the direction of freeing up the markets in this way is a good thing, although the fact that banks were allowed to do it, allowed to come down to $100 does not mean they would be willing to pay these same interest rates on small accounts, which have more administrative costs.

Even if Congress were to change the rule and bring it down to no minimums, the banks might individually impose certain minimum on accounts.

The CHAIRMAN. We will be looking into many of these areas starting on March 11 in a hearing on financial institutions and taxes they do and do not pay. We would be pleased to have you appear for that hearing, too.

Senator Durenberger.

Senator DURENBERGER. Thank you, Mr. Chairman.

I just want to thank you for being here and thank you for bringing us a degree of optimism and also a commitment to a couple of things the chairman feels strongly about, and shared by a lot of us on this committee.

I have not been around here that long, but I sort of got the impression in the 4-plus years I have been here the purpose is for every Senator to keep every bank and every savings and loan in this country open at the expense of depositors. But when you turn it around, on the other side, it looks like the depositors are largely being used to protect the banks from the Government.

I have a mailroom across the street over here that has now about 150,000 of these coupons sitting in it, and 10 or 12 employees just going crazy trying to be responsive to a constituency. But that is something that I suppose in one sense you try to get used to after a while.

It is a problem for a lot of people because we have very quickly seemed to have gotten used to the idea of savings in this country. That is a fairly recent phenomenon that has somehow escaped us.

When I got here, the savings rate was like 4 percent or 4.4 percent. In the last 2 years, it seems like we have performed some miracle in terms of not only changing the tax incentives but actually the real rate of interest income in this country.

I am curious as it relates to the chairman's question of you relative to profiteering. He did not use that word, and I do not intend to use it either. But I have two questions. First, what is the real market rate of interest today to the lending institutions in the country? Second, by accelerating the returns on savings, various forms of savings in this country, have we not to some degree institutionalized a relatively high rate on the cost of money loaned out?

I am not saying this as well as you might, but I hope you understand the question I am asking you.

Mr. FELDSTEIN. Let me start with the first question about what the real cost of funds is to the banks. Do you mean real in the sense of inflation, or are you asking a different question?

Senator DURENBERGER. No, I am asking—get the inflation factor out of it—I am talking of the real cost of the money that they have to put on the market by lending.

Mr. FELDSTEIN. Probably the best way to think about the cost of funds to the bank is to talk about the amount that they pay in CD rates. They are paying about 8.5 percent for that money at this time.

The CHAIRMAN. What are they charging for it?

Mr. FELDSTEIN. What they are charging for it depends on the particular bank.

The CHAIRMAN. On average?

Mr. FELDSTEIN. For their best customers there is a very small difference between what they are paying and what they are charging. We tend to focus a lot of attention in this country on the prime rate at 11 percent. But as I said a couple of minutes ago, about 90 percent of all the money they are putting out they are putting out below prime.

If a large corporation comes to them, they can in effect say, either you match what I can get in the open market—commercial

paper now is running at about 8.5 percent—or I will go to the open market.

Senator DURENBERGER. I suppose perhaps I am curious to know, we are hanging onto all these little institutions under the theory that unless you have got these banks in your town, you cannot borrow money from them because the big banks will not lend you money.

But let us use the example of the little guy who has a couple of thousand dollars in his savings account who is sending in these coupons, saying that I am ripping him off. If he goes in to borrow money right now, No. 1, to buy a home, and No. 2, to buy an automobile—leave aside what we see on television—but just go into the regular bank to get an automobile loan or some other kind of an installment loan, what is the average that those little people are being ripped off with?

Mr. FELDSTEIN. There are a variety of different rates. But looking at the new-home mortgage rates, the most recent figure I have shows about 13.5 percent as the rate for a conventional mortgage.

Auto loans have recently been subsidized by the oil companies. Even the oil loan is coming out of the banks. So I think 11.9 is a common going rate. That involved a buydown of interest by the oil companies below what the banks charge, so that the automobile companies are putting up about $400 a car, and extra cash for the banks bring down the interest rates that they charge to a potential car buyer on a 4-year loan.

Senator DURENBERGER. Let us move to the next case of the poor guy who needs a buck, so he offers his furniture as security to get $1,000.

Mr. FELDSTEIN. I do not know what kind of interest rates he would pay. I would suspect very favorable ones.

Senator DURENBERGER. Getting to the other side of the employment issue, I take it the President's economic recovery program, or this act that is coming is, in part, short range and in large part long-range thinking. I guess I would like your response to this problem, that is the cost of employing people in America and where you think you see that going versus the kind of strategies that are in this act.

It strikes me that we will be sitting here this year affecting the FICA costs. Obviously, we will raise the cost of social security. The cost of pensions is going up. The cost of health care is going up at a rate that you understand very well.

Workers compensation in a variety of places in this country is almost out of hand. So that there is a substantial growing cost in employing people in this country.

We seem to be offsetting against that things like targeted jobs tax credit, special targeted jobs tax credits, now FSC vouchers. In other words, I wonder if we really know what we are doing in terms of trying to use the Government or the Tax Code to offset costs of employment that we also have the ability to restrain in some way through a better unemployment program, a better social security program, coming to grips with pensions, workers comp, et cetera.

Mr. FELDSTEIN. That is a very broad and a very difficult question. Let me give you the good news first. The good news is that unit

labor costs are coming down, and there are substantial improvements in productivity. That really does represent a substantial change from where we have seen in the past.

Output per man-hour was declining in 1979 and 1980. And it turned up in 1980 and even in 1982 despite a substantial decline in output. In 1982, we saw output per hour rising sharply. In the last half of the year it rose by more than 3.5 percent in real productivity gains.

That, together with the moderating of wages, has reduced unit labor costs very substantially. In 1980, unit labor costs were rising at more than 11 percent. Then they came down to about a little less than 8 percent in 1981 and less than 7 percent in 1982.

So we are making substantial improvements. That will have its effect quite clearly on both real wages that we can pay and on inflation. As I said, comparing our experience with the European experience, the fact that real wages have been more flexible here has permitted us to have growing employment. I think that is a very positive thing about our economy.

The larger issue you raise about the way in which Government programs continually increase labor costs is indeed a very serious problem. One of the problems that the Europeans talk about is the fact that they are often paying total payroll taxes which are on the order of 30 to 50 percent of their wage costs. It makes for not only very high wage costs but much less flexibility in total wages in response to changes in the compensation that actually gets paid to the workers.

So I think it is very important that we be very careful not to load up the total costs of the payroll.

The CHAIRMAN. Senator Baucus.

Senator BAUCUS. Thank you, Mr. Chairman.

Chairman Feldstein, I first want to congratulate you for a job well done. In doing a good job, I think you have brought a lot of credibility to economic forecasting that, in my opinion, the administration didn't have in the last year or two. I personally want to thank you for what you have done.

Mr. FELDSTEIN. Thank you very much.

Senator BAUCUS. You made a statement in your prepared statement that caught my eye. It is on page 2, where you said that the inflation threshold is now about 6 to 7 percent. I am wondering, by the term "inflation threshold" do you mean the old full employment rate that we used to talk about in the last few years, or is that a new term?

Mr. FELDSTEIN. I have tried to stop talking about full employment, where you get in all kinds of verbal disputes. You might say full employment is where everybody is employed. Threshold, as I have defined it here, was the level of unemployment below which you cannot go in a sustained way. You cannot keep the unemployment rate below that——

Senator BAUCUS. Is that pushing——

Mr. FELDSTEIN. Pushing high employment.

Senator BAUCUS. Why is that figure now higher than what it used to be? As I recall, it used to be around 4 or 5 percent.

Mr. FELDSTEIN. There was certainly a period in which it was significantly lower than it is now, although there was a lot of wishful

thinking for a number of years. But it has drifted up over time, for several reasons.

Senator BAUCUS. Why is that?

Mr. FELDSTEIN. Demographics change substantially. We have substantially more inexperienced workers in the labor force now, people with less than 2 or 3 years of experience, than we did two or three decades ago. It reflects both more young people and more women as a percentage of the labor force.

What we know from extensive statistical analysis is that the probability of being unemployed is higher during your first few years back in the labor force than it is after you have been a part of the labor force for a longer period of time.

Senator BAUCUS. Is that just due to the volatility in the economy?

Mr. FELDSTEIN. No; it is just that if somebody comes into the labor force, a young person finding his first job, the odds are it is not going to be a job he keeps for a decade. If the employee decides they will part company, it is just because it is not really a good job for him.

It is perfectly healthy and normal. He will leave and take a matter of weeks and find another job, and after that has happened a few times, he may find a job where the work suits him and he suits the employer and he stays for a much longer period of time.

So the fact that we have a larger number of entrants or reentrants just keeps up the statistical measure of unemployment. I think some of the changes in unemployment insurance led to higher measured rates of unemployment. Some of the registration requirements and some of our cash transfer programs have caused higher rates.

Senator BAUCUS. Whatever the reasons are, I frankly find it a little bit disturbing that the so-called full employment level is apparently rising. The fact of the matter is that of those people not working, I would assume that most of those people would prefer to have a job.

I hope that we are not engaging here in some definitional semantics in order just to make it look better.

Mr. FELDSTEIN. I don't believe so. I think if you look in more detail about who these people are, when the unemployment rate is at the level of about 6½ percent, the majority would be under 25. These would be people having difficulty establishing themselves in the labor market.

Senator BAUCUS. Another question. You probably recall—at least I noticed in your statement you did not compare the U.S. unemployment rates with those of Japan in 1970. I am sure you will recall that Japan's unemployment rate was a whopping 1.2 percent, whereas the United States, at the same time, was 4.9 percent in 1970. In 1982, at least in the second quarter of 1982, Japan rose to 2.4 percent, when we had a 9.5 percent unemployment rate.

In addition, as you know, our trade imbalance with Japan is about $18 billion. There are some estimates that it could go as high as $25 or $30 billion next year. Are we in effect transferring unemployment from Japan to the United States?

Mr. FELDSTEIN. No.

Senator BAUCUS. Are trade policies in effect doing that?

Mr. FELDSTEIN. No; I believe you have to see Japan in a somewhat broader context to see the impact of the Japanese trade, but in saying that—and I will explain what I mean in a moment—I do not want to deny that there is a lot to be learned from the Japanese about labor-management relations, about employment, about productivity.

Japan does not have a substantial trade surplus. It has had over the years a balance of exports and imports. If you look at their trade with us, you see a substantial trade surplus for Japan. When you add in their trade for the rest of the world, they come out about on balance.

Japan has to import all of its energy, it has to import substantial amounts of food and other raw materials, and obviously it has to pay for that. It pays for it by manufacturing exports.

We in one sense benefit from that. Many of the consumer products and equipment that we buy from Japan are a benefit to our economy.

Senator BAUCUS. The fact of the matter is that their unemployment rate is much lower than ours here in the United States, and certainly they enjoy a tremendous trade surplus from their point of view.

Mr. FELDSTEIN. Not from the world as a whole; with us but not with the world as a whole.

Senator BAUCUS. Regardless, they are doing a lot better. There are more people working in Japan than there are in the United States. As I understand it, Japan had a world trade surplus of $8.9 billion in 1981. In the prior year, 1980, it was a $10 billion deficit. I will just go through this very generally.

Surplus—the figures I have before me in Japan and worldwide show a 2.4-percent surplus in 1976–77, in Japan a 9.9 surplus, in 1978, $18 billion surplus. There were deficits in the next 2 years but back up to $8.7 billion surplus for 1981, the last year for which we have statistics, as near as I can tell.

Mr. FELDSTEIN. I do not really have the statistics here directly at hand that I can quote to you.

Senator BAUCUS. This is from the Department of Commerce, international economic indicators, September 1982. Anyway, I just hope that our economic policy changes, not only vis-a-vis Japan but generally. I see my time is up. One final point, lest you have the impression that this committee is unanimously in favor of retaining the 10-percent withholding on interest and dividends, I want you to know that Senator Boren and I have cosponsored a bill to repeal it, so if the Senators were here to vote it would be 2 to 2.

The CHAIRMAN. They didn't support it in the first place, so that wouldn't be any loss or a change in anybody's position. The banks have two votes and the people have two votes. [Laughter]

Senator BAUCUS. Not according to the people I talk to in my State, I will tell you.

The CHAIRMAN. You are talking to the bankers.

Senator BAUCUS. I am talking to the people.

The CHAIRMAN. The greed factor.

Senator Boren.

Senator BOREN. Mr. Chairman, I will resist the temptation to engage in the withholding debate this morning and get back to the subject at hand. Dr. Feldstein, many people I talk with are extremely concerned about what might happen to interest rates over the next few months. The statement I hear most often is that there are signs that we may be beginning to have a recovery. Are interest rates going to come back up and choke up the recovery and dash us down into an even deeper trough?

I believe this not only relates to the rate of interest, the great concern about that, the homebuilders, and you cited the increase in housing starts in the country. That is a wonderful sign. I have just talked to the leaders in the industry this week. They tell me they feel that really we need a 1 or 2 point additional decline in the interest rate to really maintain the earlier estimates.

A number of these starts are speculative starts, and too, if we have an increase in interest rates again or even any sign of it, that it would very, very quickly choke off the rate of new housing starts and bring those figures right back down again.

It is not only the rate of interest that is causing fear, but it is the uncertainty about where interest rates are going to go. People who are thinking about making an investment, they come up to me after a speech and they say, where do you think the interest rates are going to be in May, where will they be in September? It is obvious what is on their mind. It is holding them back from taking some of the actions we would like to see them take to help get the economy begin to move.

Mr. Volcker in statements before another congressional committee this week seemed to be saying that he really feels that there are no further actions that he can take or that he does not intend to take any further actions to attempt to hold interest rates down or to publicly assure the country with an open statement that he intends to use the power of the Fed to assure that interest rates are held down to the current level or forced lower or that he will use his position to keep the interest rates stable.

Do you agree with Mr. Volcker that there is nothing else the Fed can do? Do you support the direction of monetary policy in the last year?

Mr. FELDSTEIN. Let me start by saying I believe the principal reason that interest rates, especially long-term real rates, are so high is the budget deficit. The thing that can do the most to bring down the long-term interest rates is to shrink the size of the budget deficit. That will affect not only the potential competition by the Government for private funds but will change inflation expectations in financial markets in the economy in general about those out years that keep long-term interest rates high.

As far as the Fed goes, I believe the Fed has been doing a good job. I think that the policies that the Fed has announced for 1983 are commendable and appropriate policies. I think it is a very difficult time for monetary policy because of the financial deregulation that was enacted last year. It makes it very hard to read the monetary aggregates and guide monetary policy.

I believe any attempt by the Fed to draw down rates, which would really mean trying to drive down short-term interest rates, would be very counterproductive in terms of the long-term mortgage rates, and I am afraid the bond rate would be driven up by that, so I support the general statements Chairman Volcker made.

Senator BOREN. Let me ask the following questions, then. You use the term—I hope you will forgive me for saying I think it was an understatement—that a $208 million deficit is sufficient stimulus. I would certainly agree with you that it is more than sufficient and, in fact, shocking.

Do you really believe that we can run a deficit in the neighborhood of $208 billion this year, begin to sustain a private economic recovery, with it the private demand for credit, and not see any appreciable increase in interest rates over the next 12-month period?

Mr. FELDSTEIN. We might see short rates go up. Short rates have gone up in, I think, five of the last seven economic recoveries. The average increase in the Treasury bill rate during the first year of a recovery has been somewhat greater than 1 percent. Financial markets are currently betting on a rise in short-term rates in the coming years. You see it in the futures rates, you see it in the yield curve.

I think we might well see a small rise in short-term rates. I do not think that that will be what I would like, but on the other hand I do not believe it would stop the economy from having a recovery, just as it hasn't stopped past economic recoveries.

Senator BOREN. At what point would you say we should red-flag? Is there a 2 or 3 point percent rise in interest rates that we should raise the red flag? Obviously, at some point it could choke off the recovery.

Mr. FELDSTEIN. The interest rates are rising because there is a fear of a surge in inflation. That has very different meaning than if interest rates are rising because there is a strong increase in real interest rates without that inflationary surge.

Senator BOREN. Whatever the background reason, isn't there a certain point at which we simply have far exceeded that point during the last surge of interest rates in which small businesses, industries, certainly the agricultural sector and many others cannot make a sufficient return to pay that, whether that is 10 percent, 12 percent, 14 percent?

Mr. FELDSTEIN. Senator, you cannot have a blanket rule about interest rates without knowing the reason why those rates have gone up and what else is happening in the economy at the time.

Senator BOREN. Let's suppose the interest rates did start going up. Does the administration have any kind of standby plan to deal with that situation? What action should we take? I believe that is the greatest fear out there. It is the greatest fear I find in the business community, it is the greatest fear from the average person on the street, just as we begin to get the thing rolling again, the interest rates are going to choke off again.

Do we have some kind of standby? What could we do if we found ourselves in that situation?

Mr. FELDSTEIN. I believe the critical thing to do, the only thing that will really move the markets in a major way, would be an indication of determination to bring down the budget deficit. Not in

1983. Financial markets understand there is not much that can be done in the current year or even necessarily in the next year. It is this persistence of deficits for a very long period of time that is such a cloud over financial markets in the economy.

Senator BOREN. Dr. Feldstein, let me ask this last question. I ask this not for the point of debate but because I am very serious about it. I just had a very interesting series of public meetings, primarily focusing on social security. In these public meetings I heard, of course, from all of the groups that were opposed to postponing any COLA's, any kind of reduction in benefits of any kind.

It was very interesting. At the end of the meeting I asked a question of the audience. The audiences ranged anywhere from 200 to 600 people each in 18 different communities, and I got the same result in each community.

I said, wait a minute. I have heard you say you don't want the COLA postponed, you don't want this done, you don't want this benefit restrained. If we restrained everybody, if we said no COLA's for anybody, no salary increases for anyone in the Government, including Members of Congress, if we said, moderate the defense increase, and if we said, we are going to ask you for $249 a month, no increase in your pension, and we won't, at the same time, go borrow $25 billion to give somebody $100,000 a year or $400,000 tax reduction—now, several of you said you didn't want a COLA cut and so on.

I said, if we did that—they nearly all said they were against holding back on the COLA—I said, how many of you would agree with it? Every hand in the audience went up.

Now, the question I would ask you is: Do you seriously believe that, given the political makeup of the country, the perception of fairness on the part of the people in this country, do you really believe that we can get the kind of reduction and restraint in social spending that I think both you and I would agree, and certainly my voting record would indicate I am prepared to vote for those restraints in social spending?

Do you really think we can have any kind of restraint on social and domestic spending without to some degree either postponing the tax cut for a period of time, either 6 months or 1 year, or restraining the defense increases as well? Do you really think we can gain that kind of political consensus?

Mr. FELDSTEIN. You probably are a better judge of whether you can have a political consensus to do that than I will ever be. On the economics of whether it would be appropriate, about whether we could postpone the tax cut, I am just afraid that 1983 is still going to be a year of such fragile economic recovery that withdrawing that additional stimulus from economic demand, cutting back on the consumer's ability to spend runs a serious risk of slowing down the recovery or perhaps of killing the recovery dead in its tracks.

I believe that is too serious a risk to take at this time. I believe postponing it would have very little favorable effect on the deficit. Canceling it might have a favorable effect on the deficit, but it would then run a serious risk of undermining the recovery.

Senator BOREN. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Feldstein, I didn't mean to draw you into the debate on withholding. Well, maybe I did mean to do that. [Laughter.]

Just to make the point, though. We shouldn't start unraveling last year's tax reform bill. I don't think most people want to give up the tax cut just to help the greedy banks who don't want to institute withholding. In effect, that is what we would be doing. If we are going to lose $20 billion to $25 billion between now and 1988 because we don't collect money from people who don't pay their taxes, then people who pay their taxes will have to make up the difference.

That is what the debate is all about, it seems to me. I don't have anybody in my State who wants to pay more taxes because some people don't want to pay any taxes.

Mr. FELDSTEIN. As you know, the administration is currently behind that.

The CHAIRMAN. Fine. I would hope the banks would understand that in their efforts to stimulate a lot of mail—they have got $1 million campaign going on—instead of trying to make the system work, they are trying to kill the system. As I indicated when I spoke to the American Banking Association yesterday, I want to make it clear that not all bankers agree with those who are carrying on the lobbying campaign.

Many responsible bankers understand that people should pay their taxes. They know that this form W–6 can be filled out. It is called complicated redtape in all their ads. All it asks for is your name, your address, the State you are from, and you make one check mark and sign your name and put in your social security number.

Now, if that is complicated redtape to be exempt from that withholding tax, then I have been misled, because there are not a lot of complicated things to fill out.

But I believe Senator Boren indirectly raised the point. If we start unraveling the tax reform bills, then we are going to have to have some give in other areas. We will have to take away the tax cut for working people so that the bankers will be happy. To me, that is not a very good tradeoff. Bankers are generally already happy. They don't pay much tax. Some banks don't pay any tax. We are going to see why that is true.

You also mentioned in your statement the fact that the Keynesian theories wouldn't work, but what about in, say, revenue-sharing, making the first revenue sharing payment due in 1984—make it in fiscal 1983. That would be about $1.1 billion. Does that fit your description?

Mr. FELDSTEIN. This would be additional money? This wouldn't be a shift?

The CHAIRMAN. It would be a shift to get it into this year when the economy is at a low ebb.

Mr. FELDSTEIN. What would happen? Would it be lower?

The CHAIRMAN. It would be lower.

Mr. FELDSTEIN. I believe the general position of the administration in thinking about the current jobs program is to emphasize the shifting of funds from 1984 and 1985 into 1983, but doing it in a way that it does not add to the cumulative spending over, say, that

3-year period. So something that was an additional $1 billion in 1983 would have to be offset by $1 billion less in 1984.

The CHAIRMAN. There are some who would say, all right, we will offset it. Others say we would add it.

Mr. FELDSTEIN. I believe that is a fundamental difference. If we just add it, then we will be convincing financial markets that we are back on a spending spree, and I believe that could be so counterproductive in terms of the economic recovery. Whatever the $1 billion could do to stimulate the demand, it could easily be offset with a small change in interest rates if the process of expanding the deficit by $1 billion were to make the financial community and the business community despair more about Congress ability to get control of the deficit.

The CHAIRMAN. I know there have been some negotiations going on. Maybe this isn't fair to ask, but has some agreement been reached between the Democratic leadership and the White House and the Republican leadership on a jobs bill?

Mr. FELDSTEIN. As far as I know, the negotiations are still going on.

The CHAIRMAN. Both the Senate and the House?

Mr. FELDSTEIN. Both the Senate and the House.

The CHAIRMAN. If in fact that agreement is reached, it will not be a make-work type job, it will be accelerating programs?

Mr. FELDSTEIN. Exactly. Exactly. The focus would be on programs that—activities, construction, and maintenance activities we had already planned to do in 1984 and 1985 that are at a stage where we can move them forward and get them done within the current year. It would in addition be some funding for some purely humanitarian——

The CHAIRMAN. I believe there is a nutrition component.

Mr. FELDSTEIN. Yes; and a component dealing with short-term housing. But the bulk of the funds are for, as I said in my statement, doing things more efficiently from a national point of view, doing them while the people are unemployed but doing the things that would otherwise be done anyway.

The CHAIRMAN. I asked this of Secretary Donovan. Is there any administration effort under way to ease the suffering of those who are losing their health coverage because they have been out of work for a period of time and also many—I am not sure what the Federal responsibility is, but we are having a rash of foreclosures in many areas of high unemployment.

It is true in some farm areas, as Senator Boren knows, on farm foreclosures. Now, maybe it has been decided that there is no Federal responsibility, but if there is a concern, I wonder if there is any study or consideration under way by the administration.

Mr. FELDSTEIN. There is certainly no decision at this point to do anything in either of these areas. In the area of health benefits for the unemployed, I recognize that is a very serious problem. I would worry about any program that might encourage the unemployed to, in effect, have access to a medicaid or a medicare-type benefit, a publicly funded benefit that would give them substantial incentive to take health care at that time, to take additional health care at that time.

I think it is therefore a very complicated problem of designing such an option and deciding how it should be integrated with private health insurance.

The CHAIRMAN. I won't go into it now, but there is apparently a plan in Pennsylvania under consideration where they would deduct a premium from the unemployment check. It is voluntary, it is not mandatory. There are a number of Members of Congress and others who have asked us to focus on that.

I met with a number of Governors who brought that up. Some recognize that they have a responsibility to us. Not all is a Federal Government responsibility.

I very much appreciate your testimony.

Senator Boren, did you have anything else?

Senator BOREN. I just again wanted to make one last plea. I hope the administration will seriously consider the realities of trying to get spending restraint. I am told that the House Ways and Means Subcommittee on Unemployment Compensation, this week has already taken action that would add about $1 billion to the President's original proposal by putting another 10 weeks on in addition to just extending the program.

I frankly see all sorts of signs that we are back on a spending spree again and we are not heeding the need to get this deficit down. I really do not see in motion the dynamics necessary to get Congress on a track to reduce social and domestic spending or restraint on that spending unless we set a broader framework, unless there is some kind of tradeoff reached between two sides philosophically of a point to get this done.

Again, I would just urge that we look at reality. You have talked about even adding $1 billion in response to the chairman's comments, even adding $1 billion on here and there. Every time $1 billion is added, it is a danger. It sends the wrong signals and adds a whole pressure to long interest rates and puts sort of another nail in the coffin as far as psychology is concerned, that we are not really serious about getting this thing under control.

So I would just really urge you to think about that.

Mr. FELDSTEIN. I agree with you. I believe it would be disastrous if we don't get these long-term deficits under control. I believe the failure to control the deficits in the second half of this decade will prevent us from having a healthy recovery and for our moving into a solid expansion, but in terms of balance, I think the administration's budget is a balanced one.

Many people say it is all on the spending side, why aren't you prepared to address the revenue side? I believe that debate comes from focusing on the 1983 tax cut and on indexing. I have expressed myself on indexing and why I think it is important, and I have expressed myself to you on the 1983 tax cut and why that is important.

If you look at future years, you will see there is a substantial revenue increase in the administration's budget as part of reducing the deficit. Let me call your attention to 1988, the final year of our forecast, and the fact that in 1988 the reduction in the deficit between the current baseline budget of a 6.1-percent deficit and the administration's proposed deficit of 2.4 percent of GNP, that that

gap, that reduction in the deficit is made up essentially equally of reductions in outlays and increases in revenue.

Indeed, if you exclude the savings on interest on the Government debt, the reduction in outlays is actually smaller than the increase in taxes. The increase in taxes in 1988 between the baseline budget and the administration's proposal is 1.7 percent of GNP, about $85 billion in 1988. The corresponding reduction in outlays is about 1.4 percent, or about $55 billion.

There is no question that this is a balanced package.

Senator BOREN. I realize that argument can be made, but again, just let me appeal. If we start down this road and we are not able to get a package adopted that has sufficient spending restraint in it, I would very much hope, because I think if the President were to come forward and yield $10 million or $15 million on the amount of defense increase, cut the defense increase in half, and were to postpone the tax cut, whether it was for 6 months or 1 year, I think that those who basically favor using the revenue approach, and I don't happen to be one who would prefer to see us use the revenue approach to cut the deficits—I would rather cut the spending more—but I think those who are on that philosophical side would be very hard pressed then to hold off making an agreement that would encompass very sufficient and dramatic spending restraints.

I would just hope that if this does not happen, and I hope that I am wrong, I hope that I am completely wrong, I hope that the Congress will decide to buy the spending restraint no matter what, but if it does not happen, I just hope there will be some consideration given to that.

I have thought of one or two other things, and I apologize, Mr. Chairman, but I have great respect for Dr. Feldstein. We talked about the jobs we are losing. I think we all realize that many of these jobs will never be replaced.

In some of the same industries in which we are losing them, there is a shift that we find now, and there are competitive areas in terms of resources and our ability to penetrate world trade, so that we will often be shifting people who have worked in one industry over to some completely new area.

Different areas of the economy will be growing more rapidly in the future, and this relates to what we should be doing in our educational system in trying to track the skills in those fields. It is one thing to say yes, there are people who are structurally unemployed and it is absolutely essential that we reeducate these people, that we retrain them. Do we have the strategy, are we devising a strategy for determining what it is that we want to train the people in?

In other words, it is one thing to say we need retraining, but we better have some idea of where we anticipate the growth, where the new jobs can be created so that we train the people with the right skills to match up to those jobs. What progress are we making in that regard?

Mr. FELDSTEIN. The Labor Department does an employment outlook, a long-term employment outlook in which they try to assess which occupations are likely to need more employees, where the natural growth is going to come, where the shortfalls are going to come. That kind of information they make available to all kinds of

groups interested in training both at the secondary school level and in programs like the Job Training Partnership Act.

Senator BOREN. So we are trying, we are attempting to make this kind of matchup both in the short run—but I guess there is a difference in retraining in the short run and trying to revamp our educational system for those that are 6 or 8 years old.

Mr. FELDSTEIN. Could I go back to your previous comment about the need for change in the 1980's? I believe if this administration had come forward with a budget that says we want to reduce the deficit and we want to do it solely by cutbacks in spending, I think a strong case could be made for that in terms of spending, that is, double nondefense outlays as a share of GNP over the last few decades; but that isn't what we did.

The budget the President has presented to Congress calls for between 1984 and 1988 $234 billion of additional receipts and $249 billion of reductions in outlays other than interest rates.

Senator BOREN. Does that count the contingency tax?

Mr. FELDSTEIN. That includes the contingency tax.

Senator BOREN. Will it include the $5-per-barrel tax on oil?

Mr. FELDSTEIN. It will include the $5-per-barrel plus the 5-percent surcharge on personal and corporate.

Senator BOREN. The problem is a current one. What do you say to a woman—and I apologize for repeating this again because I asked this yesterday or the day before, but what do you say to someone who has $259 a month—and in Oklahoma we have 30,000 widows above the age of 72 who are solely dependent on $259 a month social security check. How do you say to that person solely dependent on $259 a month, "no increase for you," but it is very fair at the same time for us to borrow almost $30 billion to give $2,400 a year to someone in the upper income.

I realize there might be all sorts of philosophical arguments, some of which I might agree with, to defend that position, but how do you really say that to her and make her feel good about the sacrifice she is being asked to make? I think that is the nub of the problem. That is the real people problem we are having to deal with.

Mr. FELDSTEIN. I think it is very hard to tell somebody who is at that low a level of income that you have to cut their real benefits. But that is, alas, what the Commission came up with as a solution to the social security problem. I believe you cannot combine that with the tax cut. I think you have to say what was critical was that we deal with the social security problem.

We recognize there was no political dispute over the fact that the social security system was in terrible trouble and had to be dealt with. Then the question was how. An across-the-board, one-time, 6-month freeze geared to all parties was the fairest way to go.

It is not a solution that anybody likes, but it is part of a package that seemed the most acceptable way of solving the serious problems of social security, per se.

Senator BOREN. On the matter of the oil tax—and I will finish after this, Mr. Chairman, and I might be expected to have my own reasons, being from Oklahoma, for not being very enthusiastic about a standby tax on oil, but there was an interesting statement made by the chairman of Phillips Petroleum before a congressional

committee this week in which he said the decline in oil prices may well be good for the country, it may well be good for the economy, and even though it might in the short run impact his company, negatively, that he is glad to see it happen. It was a very extraordinary statement.

He made it on the basis that we have probably underestimated the component of increased energy costs as a reason for the whole spiral of inflation in the seventies, and perhaps we may be underestimating now the deflationary impact and the very beneficial impact in terms of reduction of oil prices on the total economy, both in the United States and internationally in the next 2 to 3 years.

I wonder if we should not be concerned about adding, then, to the potential cost of energy with a $5 tax at a time in which it could be a very important component of economic recovery for declining oil prices.

Mr. FELDSTEIN. You might make just about the opposite argument and say that at a time when energy prices are falling naturally is probably the best time, if one does have to impose an excise tax, to be able to do it; that it would help us to maintain whatever sense of conservation is currently in people's minds rather than allowing a bit of price relief to give up on the progress that has been made.

Senator BOREN. I don't want to be argumentative, but we are talking about the income tax cut. You say, well, we need that additional spending power, we need that injected into the economy. On the other hand, if we imposed a $5 tax on oil, we are ultimately taking away the same amount of purchasing power from the public, roughly the same amount of purchasing power.

I don't know how it would be distributed. I would imagine it might be even a more regressive taking away of purchasing power if you look at gasoline and other things. How are they different?

Mr. FELDSTEIN. I would certainly oppose a tax of the sort that the administration—I would oppose in 1983 the tax that I favor for 1986.

Senator BOREN. I see.

Mr. FELDSTEIN. We have to stage the economic expansion. I believe the economy will be able to absorb it at that time with the foreknowledge that it is coming, but if we did it right away a few months from now, it would have adverse effects on the recovery.

Senator BOREN. Thank you.

Thank you, Mr. Chairman.

Reducing Unemployment

Martin Feldstein*

Thank you, Mr. Chairman. I am very pleased to be here this morning to testify about the problem of unemployment and about the policies and developments that will reduce unemployment in the months and years ahead.

The Administration believes that unemployment is now the most serious economic problem facing the United States. In January the unemployment rate was 10.4 percent and there were more than eleven million individuals who were not working and were classified by the Labor Department as unemployed. Nearly 60 percent of the unemployed had lost their previous jobs and were either looking for a new one or waiting for recall by their previous employer. Nearly 2 million of the unemployed were teenagers who were looking for their first job or otherwise struggling with the difficult transition from school to work. Although unemployment is always undesirable, it is likely to be particularly painful to the long-term unemployed. About 40 percent of the unemployed have been unemployed for more than 14 weeks and nearly one-fourth have been unemployed for 6 months or longer.

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*Chairman, Council of Economic Advisers. Testimony before the Senate Finance Committee. February 18, 1983.

In thinking about policies to reduce unemployment, it is important to distinguish between cyclical unemployment and stuctural unemployment. Even if the economy were not in a recession, there would inevitably continue to be some unemployment as individuals change jobs, as new individuals enter the labor force, and so on. There is a floor level of unemployment below which the unemployment rate cannot be depressed and maintained without putting excessive strains on the labor and product markets, strains that would cause the inflation rate to spiral higher and higher. This floor on the unemployment rate, which may be called the "inflation threshold unemployment rate," is now probably between 6 and 7 percent. If we take the inflation threshold rate to be 6.5 percent, we can divide the current unemployment into a 6.5 percent "inflation threshold" or "structural" component and a 3.9 percent cyclical component. Thus about 4 million individuals or 38 percent of the current unemployed are cyclically unemployed. It is important to reduce both cyclical and structural unemployment, although the methods of reducing these two components are very different.

Labor Market Success

Before looking at the policies and prospects for reducing unemployment, it is useful to look at how the labor market has functioned in the dozen years since 1970. Because of the

current high unemployment rate, it is easy to complain that the labor market works badly and bemoan the fact that it has recently failed to provide jobs for all of those who want them. In fact, the experience of the past dozen years shows quite the opposite -- that the United States labor market works extremely well at providing jobs for a rapidly expanding work force. Between 1970 and 1982, the number of employed persons grew by 21 million. The labor force participation of females grew from 43 percent to nearly 53 percent. The number of employed women rose by nearly 50 percent and their unemployment rate is now actually lower than that of men. Over a long period, the labor market has also responded well to the changing mix of education skills and has employed a rapidly growing share of college graduates without any significant increase in their unemployment rate.

This good performance stands in sharp contrast to the European experience of the past decade. I recently accompanied Vice President Bush on his trip to Europe. We were frequently reminded that the unemployment rate in the European Economic Community has risen every year since 1973 and now stands at more than three times the rate of a decade ago. Even more disturbing, EEC employment is actually lower now than in 1970. I will return to the reason for this difference and the

implication for the United States toward the end of my testimony.

Economic Recovery and Cyclical Unemployment

First, however, I want to discuss cyclical unemployment. There is only one thing that can eliminate the cyclical unemployment in the United States: a sustained economic expansion. An economic recovery is by far the best jobs program. Indeed, it is the only jobs program that really works.

As you know, the Department of Labor recently announced that private employment in the United States rose by 339,000 between December and January. Imagine how much would have to be spent on a so-called "jobs program" that was aimed at providing that many jobs. At $15,000 per job, the government would have to pay $5 billion to hire 339,000 individuals. However, since not everyone who was hired in such a program would otherwise have been unemployed and since the government borrowing would crowd out private spending, many of the newly created government jobs would be offset by a reduction in private employment. Thus, creating 339,000 additional jobs would cost far more than $5 billion.

The potential job-creating effects of a public employment

program are simply dwarfed by the likely accomplishments of a natural economic recovery. The Administration forcasts that even with a moderate recovery that raises real GNP by 3.1 percent in 1983 and 4 percent in 1984, there will be 2 million more people employed a year from now in the first quarter of 1984 and 5 million more employed by the first quarter of 1985. By 1988, continued real economic growth at 4 percent a year can eliminate all cyclical unemployment. And evidence is accumulating that indicates that the United States either is or soon will be in an economic recovery that can provide those jobs. In addition to the recent rise in employment, we have seen an increase in average working hours per week, a rise in new orders, a turnaround in the backlog of unfilled orders, an increase in industrial production and many other signs.

In arguing against specific job-creating government programs, I am of course not unaware of the Keynesian theory that an increase in government spending can, by increasing total demand, lead to a higher level of output and employment in the economy. But even the most ardent Keynesian is likely to feel that a budget deficit of more than $200 billion in 1983 represents sufficient fiscal stimulus.

Indeed, increases in government outlays aimed at increasing employment may be countrproductive. If the

increased deficits in 1983 are interpreted as an indication that deficits will continue to grow in future years, the current deficits may induce disproportionately large increases in long-term interest rates during the present year. The result would be a greater decrease in private employment than the initiating increase in public employment.

Although additional goverment spending on labor intensive activities cannot be justified in Keynesian terms or as a method of pure job creation, there is a simple but important reason why it can be desirable to speed up some government projects that would otherwise be done in the future. To the extent that the labor and plant capacity that would be used in such projects would otherwise be unemployed this year, the true cost of doing the projects now is less than it would be later when there is less unemployment. I say "true" cost because even if the dollar outlay is the same, the cost is less now in the sense that the resources that are used would otherwise be nonproductive. In the technical language of economics, the projects may be worth doing now because the "opportunity cost" or "social cost" of the resources are lower now than later.

If some prospective spending in future years is shifted forward for this reason, it must be made very clear to the financial markets and others that advancing the date of future

outlays does not mean an increase in cumulative government spending and cumulative deficits over the next several years as a whole. The prospect of enlarged cumulative deficits and the resulting increases in the government debt could, by suggesting a reduced determination to control deficits in future years, cause a rise in interest rates that would result in a reduction in private spending that exceeds the increase in government outlays. This would hurt the recovery and mean that the cost of the government spending was very high indeed.

Let me now summarize what I have been saying about cyclical unemployment. First, an economic recovery and sustained expansion is the only way to get a substantial and lasting reduction in cyclical unemployment. Second, programs aimed at creating jobs by direct public hiring or Keynesian expansion of demand are inefficient and may be counterproductive. Third, a rescheduling of government spending on maintainance or capital investment from future years to 1983 may be a desirable way of reducing the real social costs of providing government services.

Structural Unemployment

Although the Government's role in countering cyclical unemployment is best limited to the provision of monetary and fiscal conditions that are conducive to a sustained economic expansion, there is scope for a more active role for government

policy in dealing with the special structural employment problems of young people, of the low skilled disadvantaged groups, and of the long-term unemployed. For each of these groups, the ordinary working of the market may fail to achieve appropriate employment. Moreover, in each case the individual may benefit from additional formal training or on-the-job training that might only be possible with Government assistance.

The President will soon submit to Congress his Employment Act of 1983. This and other legislation will strengthen and expand the opportunities for training and for on-the-job experience. It will also make it easier for the long-term unemployed to return to work.

Among the specific proposals are: the provision of $240 million in the training and job search assistance of the structurally unemployed; a granting of permission to States to use the unemployment insurance tax to finance retraining and job search assistance; a lower minimum wage for youths in summer months to make it possible for firms to hire and train many of those who are now precluded from such opportunities; an extension of Federal Supplemental Compensation to support the long-term unemployed; and a new feature of the Federal Supplemental Compensation that would permit eligible individuals to convert their weekly benefit into a voucher that would help them find employment.

These new programs supplement the Job Training Partnership Act which was enacted last year and provides $1.9 billion to provide training for poor and young people, and over $1.2 billion to help youth through the Job Corps and Summer Youth Employment Programs. The Targeted Jobs Tax Credit and the special Targeted Jobs Tax Credit for summer youth employment are also potentially helpful.

European Experience

I mentioned at the beginning of my testimony the substantial difference between the European and American experience with employment and unemployment over the past decade. In the United States, labor force participation grew and employment is now more than 20 percent higher than a decade ago. Among the ten countries of the European Economic Community, total employment is actually lower than a decade ago. The unemployment rate in the United States rose from 5.6 percent in 1972 to 9.7 percent in 1982. The unemployment increase in Europe was much greater, from 2.7 percent in 1972 to 9.4 percent in 1982.

Although there are no doubt many reasons for the substantially different employment experiences of the United States and Europe, economic researchers who have studied this question have emphasized the greater flexibility of real wages in the United States. It is widely recognized that the sharp increases in the prices of oil and other raw materials in 1973 and 1979 reduced the real incomes of the United States and

other oil-importing nations and raised the real incomes of the oil-exporting nations. Moreover, within nations there was a transfer of income to owners of oil from all other groups in the economy. This inevitable reduction in the real incomes of those who do not own oil meant that businesses would earn lower profits and that employees would earn lower real wages. This is just what we have seen in the United States in the past decade. The profitabilty of the nonfinancial corporate sector in the past decade has been lower than in the two preceding decades, even when adjustment is made for differences in business cycle conditions. Real wages in the United States have also grown much more slowly in the last decade than they did in the preceding 20 years. This downward adjustment in real wages permitted employment to expand substantially and prevented a substantial secular rise in unemployment.

In contrast, real wages in Europe did not adjust adequately to the higher prices of energy and other raw material imports. With real wages too high, firms could not afford to hire enough employees to keep the unemployment rate from rising year after year. Moreover, the unwarrantedly high real wages have depressed profits and thereby discouraged investment in new plant and equipment. While this explanation oversimplifies the situation and ignores the important growth of employment that has occurred in some industries, I believe that it

correctly portrays the prime reason for Europe's sustained employment problem.

There is, of course, a similarity between the general European experience and the employment problems in some American industries. This common experience confirms that when real wages are too high, employment and output will inevitably decline. In those industries where high real wages are not matched by comparable productivity, we will continue to see declining employment and the suffering of dislocated workers.

Fortunately, however, the problem of excessively high real wages is not widespread in the American economy. We can be grateful for the vitality and flexibility of the American labor market that has over the years responded so well to substantial changes in supply and demand. As the economic recovery progresses, our economy will provide millions of additional jobs. It is important now that the Government direct its attention to the most critical problems of the structurally unemployed and avoid doing anything that might reduce the prospects for a sustained recovery.

The CHAIRMAN. Thank you, Dr. Feldstein. We appreciate it very much.

[Whereupon, at 12:23 p.m. the hearing was concluded.]

UNEMPLOYMENT ISSUES

THURSDAY, MARCH 3, 1983

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, D.C.

The committee met, pursuant to notice, at 10:00 a.m. in room SD-215, Dirksen Senate Office Building, Hon. Robert Dole (chairman) presiding.

Present: Senators Dole [presiding], Chafee, Heinz and Bradley.

[The opening statement of Senator Robert Dole follows:]

OPENING STATEMENT OF SENATOR DOLE—UNEMPLOYMENT ISSUES HEARING

It is a pleasure to welcome the Governor of Illinois, Jim Thompson, to the Finance Committee. Governor Thompson and I have had a number of extensive conversations on unemployment. I know him to be knowledgeable and thoughtful on the issue. The Committee looks forward to his testimony and that of the other distinguished witnesses scheduled to appear this morning.

As we meet today, there is room for optimism about the future of the economy. Yesterday, the Commerce Department reported that the index of leading economic indicators was up a record 3.6 percent, a solid sign that the economy is headed for a robust recovery in 1983. In addition, the index of concurrent indicators was up .6 percent—further evidence that we are already in the recovery phase. These indicators reinforce the many other positive economic developments of recent weeks; the decline in interest rates, the surge in housing, strong retail sales, an increase in factory output, and the moderating of inflation.

It is widely known that unemployment is a lagging indicator—that is, unemployment generally does not begin to decline until recovery is well underway. Therefore, last month's news that the unemployment rate dropped by .4 percent was especially welcome. While some of the gains may have been exaggerated due to the seasonal adjustment process, the labor market showed real improvement. In addition to the drop in unemployment, the average workweek registered a strong gain, and manufacturing employment leveled off after declining for 18 months. All of these favorable trends suggest that unemployment may fall faster than the Administration has forecast.

Yet, while there is reason for confidence for the future, the current outlook remains serious. The unemployed number 11.4 million, or 10.4 percent of the workforce. 2.2 million jobs have been lost in manufacturing alone since the onset of the recession. In addition, the regional impact of unemployment has been uneven, hitting hardest large Midwestern states, such as Illinois, Ohio, and Michigan, which have lost manufacturing jobs.

Much has been said about fundamental structural changes in the American economy. We must recognize that unemployment will remain high in many manufacturing industries even as recovery takes hold. If those manufacturing jobs indeed are not coming back, we must devise a strategy to retrain and relocate workers so that they can find jobs in expanding industries.

In that regard, on February 18, this Committee received testimony from the Secretary of Labor and the Chairman of the Council of Economic Advisers. The Administration's unemployment initiatives were described and its economic policies and forecasts were presented. Primarily, the witnesses concentrated on the plan to extend the Federal Supplementary Compensation (FSC) program beyond the March 31, 1983 expiration date to September 30. The Administration also proposed a voucher or tax credit program to encourage employers to hire individuals receiving

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FSC benefits. The tax credit would be applied to the employer's Federal or State unemployment tax liability or against the corporate tax liability. Another Administration initiative would allow States to use 2 percent of their State Trust Fund revenues for training and relocation programs. I am confident that the Finance Committee will give all these proposals careful consideration.

Since our earlier hearing, the Ways and Means Committee has agreed to a modification of the FSC extension which provides up to 10 additional weeks of benefits for individuals who have or will soon exhaust their benefits under the present FSC Program. The FSC program would expire on September 30, 1983. The Ways and Means Committee did not include the voucher proposal or the proposal to allow States to use up to 2 percent of State unemployment insurance tax revenues to pay for training, job search and relocation assistance. It is my expectation that today's witnesses will give us an evaluation of the Administration's initiatives, as well as the actions taken by the Ways and Means Committee.

One issue not directly addressed by the Administration is the question of State trust fund solvency. As Governor Thompson will soon point out. The number of States borrowing funds from the Federal government for the payment of unemployment benefits has increased at a frightening rate. Some 26 States, plus the District of Columbia, Puerto Rico, and the Virgin Islands, have totally exhausted their benefit reserves. Federal loans of over $11 billion have been made and more borrowing is anticipated. The outlook for the Unemployment Trust Fund is for continued deterioration over the next few years.

The Omnibus Budget Reconciliation Act of 1981 contained a provision which requires for the first time, the payment of interest (up to 10 percent annually) on loans. This clearly reduces the attractiveness of Federal loans, but has not yet reduced the demand for such loans. The Reconciliation Act also contained provisions which allow States to qualify for a "CAP" on tax increases which would otherwise have taken place when States become delinquent in repaying their loans. Solvency criteria for qualifying for the cap were developed with the help of the interested states and the cooperation of the Administration.

Some States have taken steps to restore solvency to their UC programs. Michigan and Louisiana are to be commended for the courageous action taken by the legislatures in those states to reduce UC program costs and to bring those costs back into line with the ability of employers to pay. It is vital that other State legislatures and the U.S. Congress develop and enact changes in the State and Federal programs which will contribute to solvency. States must adjust their UC programs to accomodate permanent shifts in the economy. During the 1970's and 1980's recessions have lasted longer than previous recessions. Recoveries have been weaker. Unemployment has been higher during both recession and recovery. Many states failed to take these changes into account in their programs. As I mentioned some States have taken the tough steps necessary to trim UC costs and stop the exodus of businesses to other States with more advantageous labor costs.

The U.S. Congress, and especially the Finance Committee will need to examine UC trust fund issues carefully this year. It may be necessary to revise or alter the loan and interest provisions of the Reconciliation Act. However, I would caution everyone that I consider these provisions to be among the most important achievements of the 97th Congress. These changes have already led to reform in a number of States. More State legislatures are considering proposals to restore solvency. No action this Committee or this Congress takes should interfere with or retard such a responsible course.

On that note, I welcome the Governor and our other distinguished witnesses.

Senator DOLE. Governor, I think we may start. There are not many members present, but I understand you have a tight schedule and need to get back to Illinois.

Let me welcome you to the committee and indicate that we again appreciate your hospitality in hosting a meeting for me with other Governors in Chicago recently. This is sort of a follow-on to that meeting plus the recent National Governors' Association meeting.

We are getting some good news about the economy on a daily basis, but we still have an unemployment problem. In some States it is more serious than in others, and we would be pleased to hear from you concerning your State as well as other States in your association with the National Governors' Association.

STATEMENT OF HON. JAMES R. THOMPSON, GOVERNOR OF THE STATE OF ILLINOIS, VICE CHAIRMAN, NATIONAL GOVERNORS' ASSOCIATION

Governor THOMPSON. Thank you, Mr. Chairman.

I wish to express the appreciation of the National Governors' Association for the willingness of this committee at this time to take on the additional difficult and controversial issue of UI reform. I know the committee and the Congress is struggling with social security at the same time. You don't need any added burdens, but burdens exist among the 50 States on this issue, and we believe some long-term consequences for the people of the Nation are at stake.

So it is my pleasure to appear here today both in my capacity as the vice chairman, chairman-elect of the National Governors' Association and as the Governor of the State of Illinois, one of the States most heavily impacted by current Federal policy concerning unemployment compensation.

In many ways the solvency of the unemployment compensation system in America, especially as it relates to Illinois and other industrial heartland States, is as consequential and controversial matter as the social security issue which now lies before this committee for deliberation.

Like social security, the unemployment insurance program has become an economic lifeline for millions, and like social security, the proposals to change the UI program, no matter how minor they may be, invoke deep political reactions and divisions.

I do not mean to say the States are necessarily divided between themselves. In the latter part of my testimony I will suggest a new policy in the National Governors' Association that was adopted unanimously in our plenary session last Tuesday.

What I mean by this statement is to say that in the process of changing and reforming unemployment compensation systems within a State in assigning responsibility as between business and labor for the economic consequences of reform, that is, increased taxes, decreased benefits or structural changes in the way in which benefits are paid within a State, it is increasingly difficult to achieve reform within the State, especially in times of recession, and political problems often arise, especially when the legislature itself is partisanly divided.

I face just such an example in my State of Illinois. We have a Republican Governor and a Democratic legislature. We have business and labor looking at a problem which is twice as large as the problem they looked at 2 years ago when we reformed. Nevertheless, we are determined, the legislative leadership and I, to force reform in Illinois as a condition for asking for Federal assistance.

But I would not pretend it is easy within a State like ours to bring business and labor together when the fiscal consequences are so great. Like social security, present and future unemployment compensation outlays will without the needed changes outstrip the actuarial needs of the system, threatening the solvency and integrity of the entire program.

Like social security, the UI crisis is upon us now, and I believe we must act quickly and responsibly. The difference between UI

and social security, however, is the UI problem, obviously, has operated as a partnership between the Federal Government and the 50 States. As a partnership, we have operated under 50 sets of rules and 50 different financing relationships which complicate long-term financial management of the program.

In this respect the UI program more nearly matches medicaid, AFDC, than it does social security.

I have taken the time to make these comparisons to social security because I think it is important we place the UI solvency issue in proper perspective. The States and the Federal Government are in partnership in operating what is now, especially now, a mainstream economic security program.

The financial integrity of that program is threatened, threatened not because of the profligate ways, the errors, mistakes or maladministration of any of the partners, but because of economic and political forces similar to those which have pushed the social security Program to a financial cliff.

For example, we now deal in 1983 with something called structural long-term unemployment rather than cyclical unemployment, something that was not contemplated, I believe, in the earlier stages of the system nor in its design. So we believe the partners, the 50 States and the Federal Government, must cooperate in a nonpartisan fashion to secure our future without destroying the program.

Simply put, the long-term solvency of UI is in question. Driven by nearly 3 years of devastatingly high unemployment, 4 years of recession, States have had to pay out more in benefits than they have been able to raise in revenues.

I note here the unemployment rate in my State has gone from 5.5 percent to 12.5 percent in just 3 years, an extraordinary rise. As I said, the UI program was designed around the assumption that unemployment is cyclical in nature. States were to build surpluses during the good times and draw down the surpluses in the bad times.

In the grand design of things, however, the good times are supposed to last longer than the bad times. The trust fund concept is designed to carry us through 12 months of recession followed by 40 months of prosperity. If that was the design of the system, the system indeed has been stood on its head, since we have had essentially in my State 4 years of no or flat economic growth and nearly 4 years of recession, certainly 3 years of recession, and we don't have the cyclical assumptions the design contemplated.

Double digit unemployment has gripped most of the industrial States for the better part of the last year and a half. This high level of unemployment is likely to be with us for the next 18 to 24 months.

As I said to my legislature yesterday in delivering my budget message, as hopeful as I am, Mr. Chairman, about the resumption of economic activity in Illinois and the Nation, the beginning of recovery, which we see signs of, employment as a factor of recovery is always the last indicator, and many industrial States are last out of the recession.

So we project, even under optimistic economic assumptions, or the next year at least the continuance of unemployment in our

States and States like ours at about the same level we are now suffering even with the onset of a pretty good recovery.

Of course, double digit unemployment means substantial Federal borrowing by the States to finance UI benefits. All of this is bad enough when you consider whatever the State borrowed or will borrow in the future must be repaid. Illinois' UI debt stood at just over $2 billion last December.

Under assumptions of a modest economic recovery absent any changes in State law, that $2 billion debt will soar to an estimated $4.4 billion by the end of 1985, and repaying $4.4 billion, even in good times better than we have known for a decade, would not be easy for a State whose economic structure is undergoing structural changes over this decade as we lose manufacturing employment in our economy and trade it for lower-priced service jobs.

Of course, States cannot and will not let these debts continue to pile up without taking actions to reduce further borrowing. We intend to retard future deficits. We will position ourselves to repay the debts we have incurred. Repaying the debt has been compounded by the ill-timed imposition of interest, which in the current economic climate, can be considered punitive. Let me explain that.

I do not mean by ill-time to impute any bad faith or bad intent to the Congress in the passage of interest in 1981, but all of us, Congress and the States, were in 1981 when the interest penalty was agreed to, operating under economic assumptions which have since proven to be invalid.

So what was a perfectly rational good faith attempt by the Congress and the States to come together in 1981 and agree to interest on borrowings for the first time has turned out to be, without any intent that it be, a tax on unemployment. It was certainly not the intent of this Congress, I know, to tax unemployment.

The imposition of interest by the Congress was intended to act as an incentive for States to shore up their programs and avoid needless borrowing, and in that sense, the imposition of interest was, we believe, correct. But because of national economic conditions beyond our control, my own State, as an example, stands to make interest payments in excess of $1 billion from our general revenue fund over the course of the next decade, interest alone, not payment on principal.

That is in the context of these economic times and the burdens which the Federal Government has asked the State to assume in other parts of the budget over the course of the last several years, a staggering sum, something which really hasn't sunk in back home. They just can't contemplate back home that we will owe the Federal Government $1 billion in general revenue fund interest in the next decade without changes in State or Federal law.

Illinois is not alone. Pennsylvania, Michigan, and Ohio face equally high sums. States like Wisconsin and Minnesota, proportionate to their size, face the prospect of even greater interest payments. In fact, according to the estimate of DOL, by the decade's end, States in the aggregate will owe the Federal Government more than $10 billion in interest without changes in law.

I do not appear before this committee today either as a representative of NGA or the Governor of the State of Illinois to say the imposition of interest was wrong in 1981 or that interest should not

be charged on loans of this nature or this magnitude. Obviously, the Federal Government must borrow to finance our borrowings, and the Federal Government must pay interest on those borrowings.

But there are two things that strike me. First, that is not how the system began. That was a midcourse correction in the system, and I think we have to take into account the fact that the economic assumptions upon which it was founded have changed radically since that time.

Second, the imposition of the interest penalty, even though the Federal Government has not yet begun to collect it, did work. It has forced States to reform their system, to bring them more in balance. For example, as a part of that agreement in 1981 with the Congress, my own State enacted $500 million worth of reform benefit cuts or freezes, structural changes, taking people out of the system, the voluntary quits, for example, and imposing new tax increases on business.

Pennsylvania, Michigan, and Ohio and a host of other States acted in the last 2 years to change their laws to bring their system into balance, but again I emphasize we all acted and the Congress acted based upon projections of economic recovery made in 1981 that never occurred.

Consequently, the imposition of interest has become, in fact, a Federal tax on unemployment, and at the worst possible time and imposed upon those least able to pay. I think it is fair to say, Mr. Chairman and members of the committee, that no amount of State foresight and no responsible level of State sacrifice could have prevented the severity of our plight.

National economic conditions and structural unemployment did not arise out of our UI benefit structure. Some people have said that States have gotten into trouble over the years by keeping benefits high and taxes low, yet Illinois' UI taxes now stand among the highest in the Nation. They range 25 percent above the national average.

Illinois' revenues in 1982 were over $1 billion, more than double our 1977 revenues. Pennsylvania's UI taxes, for example, are 45 percent above the national average, and they must reform again.

Most States base their benefit payments on the average weekly wage. Because the average weekly wage in States like Michigan, Pennsylvania, and Illinois is relatively high, we pay higher than average benefits, but even if we in Illinois, again as an example, only pay the national average benefit, we would still have been forced to borrow more than $500 million in 1982 to finance those benefits.

The same story is true for our sister States. The number of unemployed and the duration of their unemployment, especially the latter factor, and not our benefit structure is the primary source of the solvency problem. Even massive measures such as the $3.5 billion UI tax and benefit change enacted last fall by the State of Michigan are insufficient to curb the need for substantial future UI borrowing.

Despite biting an incredibly large bullet and, in Michigan's case, a cannon shell, Michigan will face hundreds of millions of dollars

in interest payments that mount up because it takes time for sweeping changes to right the system.

Further emphasizing the widespread nature of the problem, I note that an excess of 30 States will borrow from the UI trust fund in 1983. I believe that to be a record number. Even more States will borrow in 1984.

Included among these new borrowers are States whose trust funds had seemingly inexhaustible reserves just a few years ago and States whose unemployment rates have averaged considerably less than the high rates experienced by the largest industrial States.

Previously this problem was thought to be confined to a relatively few States. I can recall my work with this committee of the Congress just 2 years ago having very few allies as I wandered the Halls of Congress, but as evidence of how much has changed in just 2 years, I am pleased to report to you today that just 2 days ago, the National Governors' Association at their annual winter meeting in this city passed a new policy on unemployment insurance and it was adopted by the Governors without dissent, a striking note for the National Governors' Association on issues of this sort.

In two ways it sets forth the policy now supported unanimously by our association. We ask that the solvency of the existing basic State program be improved by encouraging Governors to accept the responsibility for working with State legislatures to enact a taxing mechanism, changes in program qualifications to insure future trust fund solvency.

In other words, we have said to ourselves: Governors, take the lead oar in getting your State systems in order. States which act responsibly to bring their tax revenues and their benefit outlay in balance on a reasonable schedule should be eligible for a deferral of the imposition of interest on borrowing. That is now a policy of the National Governors' Association.

The second policy change which we adopted just 2 days ago asks that only the two provisions required for maintaining the FUTA cap in 1981 and 1982 should apply for 1981 and beyond. That is, no net decrease in solvency and no reduction in tax effort. That is quite a change for the National Governors' Conference, and as I say, that policy was enacted 2 days ago without dissent.

Already we have begun to carry it out. One of the reasons for which I asked this committee's indulgence in testifying first this morning was the necessity of returning to Illinois today to prepare for a meeting tomorrow in Springfield which I, along with the leadership of the Illinois General Assembly, will host the first meeting between business and labor to begin to set in balance a new Illinois' UI system.

The first meeting will be at the executive mansion 2 weeks from tomorrow. The last meeting will be in the office of the speaker of our house. We are giving business and labor in Illinois 2 weeks to see if they can reach closure on reforms of Illinois' UI system. If they cannot, the leadership and I bipartisanly—and I emphasize again they are members of the Democratic party and I am a Republican—have pledged that we will draft UI reform and pass it in the Illinois General Assembly.

That is how quickly and responsibly and seriously we are acting, and this at a time when the Illinois General Assembly faces policy changes of as great or greater magnitude, including my request for substantial tax increases for the State of Illinois, in order to responsibly balance our budget.

Other States are acting as quickly. Michigan has already completed their legislative action. Pennsylvania is scheduled to introduce legislation shortly. I anticipate that virtually all borrowing States will take action in this calendar year.

No matter how quickly we act to reform, however—and reform is relative to the economic conditions in which we find ourselves, we thought we had reformed 2 years ago—we will not be able to avoid the necessity of borrowing heavily from the Federal Government for Federal fiscal years 1983 and 1984.

Moneys borrowed in 1983 and 1984 will not soon be repaid. The accompanying interest charges in 1983 and 1984 borrowing will be substantial and will remain substantial for years to come, as we are unlikely to raise sufficient surpluses in the next few years to repay these interest-bearing advances

Under current Federal law, the interest debt of the State of Illinois in our fiscal year 1985 would be $150 million. To put that in perspective, that would likely be a total increase in that year for all new higher education spending by the State of Illinois and half the new spending for elementary and secondary education.

In other words, the necessity to pay Federal interest in fiscal 1985 for the State of Illinois takes from our general revenue fund the capacity to finance most of the advances in education that the State would ordinarily be expected to make. They will compete for the same dollars.

Coupled with these interest charges, States face the prospect of seeing their employers burdened with accelerating Federal tax credit losses which are automatically imposed to retire a State's debt. These penalty taxes will rise by $80 million a year for Illinois employers until our full debt is repaid.

In 1981 you recognized the devastating impact these accelerating FUTA taxes would have on the employers in the State and the State's future economic growth. You enacted provisions in the Omnibus Reconciliation Act which allowed States to achieve a cap on FUTA offsets.

If that had been correct, States like Illinois, Michigan, and Pennsylvania would have qualified for the cap. Continued deep recession has made qualification impossible.

What will already be a slow economic recovery for these industrial States has slowed even further if these accelerating FUTA offsets cannot be capped under achievable conditions because of the uncertainty about the nature of this recovery, something that I think drove the main policy of the NGA 2 days ago to ask the Congress to reduce the outyear deficits in ways that could not be contemplated that Governors would ask just a few short years ago, I think bothers us all.

If the structural deficits of the Federal Government are not brought into line, then the prospect of long-term economic recovery for the whole Nation, let alone the heartland, is much in doubt.

What do we propose? Specifically, we are proposing that States which enact reforms—in other words, States which begin to close the gap between benefits and revenues—be provided with the following Federal relief.

First, that the imposition of interest on State borrowing for fiscal years 1983 and 1984 be deferred. We are not asking for a bailout. We are not asking for a waiver. We are not asking for the abandonment of the interest concept, because as I say, when it was imposed in 1981, the intention was good.

All we are asking for is a delay in the imposition of the interest for these 2 fiscal years to take account of the fact that the economic assumptions which underlay the imposition of interest have not materialized. By providing the States the necessary time to regain solvency, the Federal Government will be relieved of the necessity of lending to the States in the outyears a substantial Federal deficit saving. That is an NGA policy as well as an Illinois suggestion.

Second, this is not a part of NGA policy. It is our suggestion from Illinois that for any interest-bearing debt a State has, FUTA tax credit offsets be applied first to such interest-bearing advances rather than to the noninterest bearing debt.

The impact of the current policy is in effect to roll forward noninterest-bearing debt until it all becomes interest bearing. That would enact a fundamental change in the thrust of the UI program, and as I say, it is not a part of present NGA policy. It simply was not advanced or considered within the NGA. It is a suggestion we make from Illinois.

Three—and again, this is NGA policy—the provisions required for maintaining the FUTA cap in 1981 and 1982 should apply for 1983 and beyond. Businesses in States that are hardest hit by economic dislocation should not be further burdened by paying even higher taxes.

We believe that to qualify for such relief, States should be required to act between October 1982 and October 1984 to effect substantial percentage changes in their tax and benefit structures from current projections. We believe it is essential to couch it in that way so that States do not again fall victim to what may be faulty economic forecasts or assumptions that future recovery in this Nation will not be clouded by the magnitude of currently projected Federal out-year deficits.

The time is structured between October 1982 and October 1984 to recognize that different States operate on different legislative calendars. They do not all meet with the frequency of the Illinois Legislature, which meets interminably.

These past several years have seen our economy on an incredible roller coaster ride for we have experienced everything from runaway inflation, unbearable real interest rates, to repressive unemployment rates. To tell the truth, we are kind of shellshocked out in the States.

Round after round of State budget cuts and tax increases have been made in statehouses across the country. Freshman Governors are finding themselves suggesting and signing tax increases days after assuming office, when they certainly didn't campaign on those assumptions.

I have guided my State now through 6 years of tax reform and no tax increases, and I can go no longer, and I have suggested substantial tax increases in Illinois. I presented yesterday to the Illinois Legislature the alternative, what was promptly characterized by my speaker of the house as the Governor's doomsday budget, and indeed, for many people in my State it would be.

Without your cooperation, the help of the Congress on the unemployment insurance solvency issue, there will be no end to that portion of the rocky ride that we have been on for some time. So the hardest challenge of our UI partnership faces us now, and I come before you today to ask on behalf of my State, more particularly on behalf of the National Governors' Association, to join in renewing and strengthening the bonds of this partnership and to bring the program into line with current economic reality.

I thank you for this opportunity, Mr. Chairman and members of the committee, and I would be glad to respond to any questions you or the members might have.

[The prepared statement of Governor Thompson follows:]

Prepared Statement of Gov. James R. Thompson

I am James R. Thompson, Governor of the State of Illinois. I come before you today both as the Governor of Illinois and on behalf of the National Governors' Association. I wish to thank Chairman Dole and the members of the Finance Committee for this opportunity to address you on a very important matter--the solvency of our nation's unemployment insurance system.

In my six years as Governor of Illinois, I have journeyed to Washington numerous times to speak to national leaders about matters of consequence to my state and to our sister states. There have been few issues, however, as serious in impact and as broad in scope as the current and growing crisis surrounding the financing of the unemployment insurance system.

In its own way and on its own scale the UI solvency problem facing Illinois and other industrial states is as consequential and as controversial a matter as the Social Security issue which lies before this Committee for deliberation.

- Like Social Security, the Unemployment Insurance program has become an economic lifeline for millions.

- Like Social Security, proposals to change the UI program, no matter how minor they may be, invoke deep political reactions and divisions.

- Like Social Security, present and future UI outlays will, without needed changes, outstrip the actuarial needs of the system, threatening the solvency and, in fact, the integrity of the entire program.

- Like Social Security, the UI crisis is upon us now and we need to act quickly and responsibly.

Unlike Social Security, however, the UI program is operated as a partnership between the federal government and the 50 states. As a partnership we have operated under 50 sets of rules and 50 separate financing systems which complicate comprehensive long-term financial management of the program.

I have taken the time to make these comparisons to Social Security because I think it is important that we place the UI solvency issue in proper perspective. We--the states and the federal government--are in partnership in operating a mainstream economic security program. The financial integrity of that program is now threatened; threatened not because of the profligate ways of any of the partners, but because of economic and political forces similar to those which have pushed the Social Security program to a financial cliff.

The partners must now act in a cooperative and bipartisan fashion to rescue our financial future without destroying the essence of the program--that is, financial security for hard working men and women who are suffering the impact of protracted unemployment.

What is this crisis? Where is this problem that until very recently seemed to escape most everyone's attention?

Simply put the long-term solvency of UI system is in question. Driven by nearly three years of devastatingly high unemployment and four years of recession, states had to pay out more in benefits than they have been able to raise in revenues..

The UI program was designed around the assumption that unemployment is cyclical. States were to build surpluses during the good times and draw down these surpluses in bad times. In the grand design of things, however, the good times are supposed to last much longer than the bad times. The trust fund concept is designed to carry us through twelve months of recession followed by 40 months of economic prosperity.

The bad times aren't following the rules, however. Double digit unemployment has gripped the industrial states for the better part of the last year and a half. This high level of unemployment is likely to be with us for the next 18 to 24 months. And double digit unemployment means substantial federal borrowing by the states to finance UI benefits.

All of this is bad enough when you consider that whatever a state has borrowed or will borrow in the future must be repaid. Illinois' UI debt stood at just over $2 billion last December. Under assumptions of a modest economic recovery and absent state law changes, that $2 billion debt will soar to an estimated $4.4 billion by the end of 1985. And, repaying $4.4 billion even in good times won't be easy for a state whose economic structure will undergo massive structural changes over the next decade.

Of course, states cannot and will not let these debts continue to pile up without taking actions to reduce future borrowing. We intend to retard future deficits and we will position ourselves to repay the debts we have incurred.

But repaying the debt has been compounded by the ill-timed imposition of interest which in the current economic climate could be considered punitive. Until the passage of the Budget Reconciliation Act of 1981, states could borrow without interest charges. The imposition of interest by Congress was intended to act as an incentive for states to shore-up their own programs and avoid needless borrowing. But let's see what the imposition of interest has really rendered.

Under the projections I referred to previously, Illinois stands to make interest payments in excess of $1 billion by the end of this decade. That's interest alone--no repayment on the principal. That's a staggering sum for any state. And Illinois is not alone in facing interest payments of this magnitude. Pennsylvania, Michigan and Ohio face equally high sums. States like Wisconsin and Minnesota, proportionate to their size, face the prospect of even greater interest payments. In fact, according to the Department of Labor's estimates, by the decade's end, states will pay the federal government more than $10 billion in interest.

However, please don't misunderstand my concerns. Paying interest on borrowed funds is a standard business practice. But, our partnership did not start out that way and such action ignores the fact that at both the federal and state levels pressures have been at work to change the UI system. For instance, in 1981, in my own state we enacted $500 million in benefit cuts and tax increases. Pennsylvania, Michigan and Ohio and a host of other states acted between 1980 and 1982 to change their laws to improve system solvency. States acted, however, based on projections of economic recovery in 1982 which never materialized.

Consequently, the imposition of interest has become a federal penalty, payable at the worst time by those least able to pay. No amount of state foresight, no responsible level of state sacrifice could have prevented the severity of our plight. National economic conditions and structural unemployment did not arise out of our UI benefit structure.

Critics contend that states have gotten into trouble by keeping benefits high and taxes low. Yet Illinois' UI taxes now stand among the highest in the nation--a full 25 percent above the national average. Illinois' revenues in 1982 were over $1 billion, more than double our 1977 revenues. Pennsylvania's UI taxes are 45 percent above the national average.

Most states base their benefit payments on the average weekly wage. Because the average weekly wage in states like Michigan, Pennsylvania and Illinois is relatively high you pay higher than average benefits. But even if Illinois only paid the national average benefit amount we would still have been forced to borrow nearly $550 million in 1982 to finance benefits. The same story is true for our sister states--the number of unemployed and the duration of their unemployment and not our benefit structures is the primary source of our solvency problem.

Even massive measures such as the $3.5 billion UI tax and benefit changes enacted last fall by the State of Michigan are insufficient to curb the need for substantial future UI borrowing. Despite biting an incredibly large bullet, Michigan will face hundreds of millions of dollars in interest payments which mount up because it takes time for sweeping changes to right the system.

To further emphasize the widespread nature of the problem, we note that in excess of 30 states will borrow from the UI Trust Fund in 1983. Even more states will borrow in 1984. Included among these new borrowers are states whose trust funds had seemingly inexhaustible reserves just a few years ago; and, states whose unemployment rates have averaged considerably less than the high rates experienced by the large industrial states.

Previously, this problem was thought to be confined to a relative few states. But as the recession has continued, the problem has spread throughout the country. As evidence of this, just two days ago the National Governors' Association at their annual winter meeting passed a new policy on unemployment insurance. It was supported by Governors across the country, from Delaware to Colorado, from Maine to Missouri. It reads:

- Improve the solvency of the existing basic state program by encouraging Governors to accept the responsibility for working with state legislatures to enact a taxing mechanism and/or change program qualifications to ensure future trust fund solvency. States which act responsibly to bring their tax revenues and their benefit outlays in balance on a reasonable schedule should be eligible for a deferral of the imposition of interest on borrowing.

- Moreover, only the two provisions required for maintaining the FUTA cap in 1981 and 1982 should apply for 1983 and beyond, i.e., no net decrease in solvency and no reduction in tax effort.

To me, the path for the future is clear. We must proceed at both the state and national level, in partnership to restore solvency to this program. There is no escaping state action. Future benefits must be cut and taxes increased. Illinois has already begun this process. Just as we did in 1981 we have gathered together the leadership of business, labor and our General Assembly to derive compromise legislation which will curb our projected deficits and retard the solvency gap. The leadership of the General Assembly and I expect to take action in the next 60 days on this package. Michigan has already completed this type of action. Pennsylvania is scheduled to introduce legislation shortly. I would anticipate virtually all borrowing states will take action this calendar year.

No matter how quickly states act, however, they will not be able to avoid the necessity to borrow heavily from the federal government for federal fiscal years 1983 and 1984. And monies borrowed in 1983 and 1984 will not soon be repaid. The accompanying interest charges on 1983 and 1984 borrowing will be substantial, and will remain substantial for years to come as we are unlikely to raise sufficient surpluses in the next few years to repay these interest-bearing advances.

Coupled with these interest charges, states face the prospect of seeing their employers burdened with accelerating federal tax credit losses which are automatically imposed to retire a state's debt. These "penalty taxes" will rise by $80 million a year for Illinois employers until our full debt is repaid.

In 1981, Congress recognized the devastating impact these accelerating FUTA taxes would have on the employers of a state and on a state's future economic growth. The Congress enacted provisions in the Omnibus Reconciliation Act which allowed states to achieve a cap on FUTA offsets. With a cooperating economy states like Illinois, Michigan and Pennsylvania would have qualified for a FUTA cap. Continued recession, however, has made qualification impossible. What will already be a slow economic recovery for the industrial states will be slowed even further if these accelerating FUTA offsets cannot be capped under achievable conditions.

These two issues then--the near term interest costs states face and, the need to moderate our long-term debt repayment--form the core of our need from our federal partner.

Specifically, we are proposing that states which enact reforms, in other words, begin to close the gap between benefits and revenues, be provided with the following federal relief:

1. That the imposition of interest on state borrowing for fiscal years 1983 and 1984 be deferred. By providing the states the necessary time to regain solvency, the federal government will be relieved from the necessity of lending to the states in the out years.

2. That for any interest-bearing debt a state has, FUTA tax credit offsets be applied first to such interest bearing advances, rather than to the non-interest bearing debt. The impact of the current policy is, in effect, to roll forward non-interest bearing debt until it becomes interest bearing.

3. That the provisions required for maintaining the FUTA cap in 1981 and 1982 should apply for 1983 and beyond. Businesses in states that are hardest hit by economic dislocation should not be further burdened by paying even higher taxes.

To qualify for such relief states should be required to act between October, 1982 and October, 1984 to effect substantial percentage changes in their tax and benefit structures from current projections. It is essential that we operate in that manner so that states do not again fall victim to faulty economic forecasts.

These past several years have seen our economy on an incredible roller coaster ride. We have experienced everything from run-away inflation to unbearable interest rates to repressive unemployment rates. The states are shell-shocked from the ride. Round after round of state budget cuts and tax increases have been made in statehouses across the country. And while there appears to be a faint light shining at the end of the tunnel, the ride is far from over for states. Without federal cooperation on the unemployment insurance solvency issue there will be no end to the rocky ride for some states. The stiffest test of our UI partnership faces us now. I ask you to join in renewing the bonds of this partnership.

Again, thank you for this opportunity Mr. Chairman, and I would be happy to respond to any questions you or other members of the Committee may have.

19-070 O—83——6

The CHAIRMAN. Thank you very much, Governor Thompson. I know you have some time constraints. We may not have that many questions. As you know, the House Ways and Means Committee added an extension of unemployment benefits to the social security reform package. Nothing was included on loan reform.

I know the Governors have been working closely with the House subcommittee and, I assume, at the full committee level. They included nothing on loan reform in that package. That does not mean it could not be added on the floor, but I would guess it would be unlikely if it was not a part of the Ways and Means Committee.

Did you have any indication on the House side they would do separate legislation in the loan reform area?

Governor THOMPSON. No, Senator, I have not. Unfortunately, I have not had a chance to have as many conversations with the chairman of the Ways and Means Committee on this issue as I would have liked. I will. We are scheduled for a meeting.

My suggestion to him would be that we reapproach this question in the House in a separate proceeding or, if necessary, in conference with the Senate if conference should occur, but I think in all frankness, because of the fast track schedule of the House, we look to the Senate to be our first bulwark on this issue, and then go back to the House and raise it again.

The CHAIRMAN. You have indicated very clearly that tomorrow you will start this process, sort of the gun to the head approach. If you cannot work it out, we may have to do it for you.

Governor THOMPSON. Yes, sir.

The CHAIRMAN. To make your trust fund solvent in Illinois, you would have to take rather drastic action this year, would you not?

Governor THOMPSON. We would. To make our fund solvent this year, we would have to do something like this, assuming that you divide the contribution to the solution to the problem equally between business and labor, an assumption that would not be easy to make when 700,000 people in Illinois are unemployed. I think my friends in the AFL–CIO, going to their membership on unemployment compensation and asking for substantial reductions in benefits would be met with some hostility in 1983, as opposed to the atmosphere in 1981.

But assuming you had 50–50 contributions between business and labor, it would amount to $500 million on both sides, or roughly double the price of the settlement in Illinois in 1981. So, we would be asking business and labor in our State to double their contribution to a solution at a time when both are relatively worse off than they were 2 years ago, when their contribution was half that.

It would mean increasing taxes retroactively by 50 percent and slashing benefits for the period April through December by 40 percent, cutting benefits by 40 percent. That would put our average tax on total wages at 2.4 percent, the highest among the 50 States, and reduce the benefits to about $90 a week, among the lowest in the Nation. That would be the price of 1 year's solvency, and that is, in my judgment, unachievable.

The CHAIRMAN. Yes, that would be pretty tough. The record of Illinois' unemployment financing in the seventies was not very good. In 1973 to 1975, the maximum weekly benefit amount was substantially increased. A 50-percent escalator clause was adopted

for a single claimant. Sixty percent of the State average weekly wage was provided for claimants with nonworking spouses. Dependents' allowances were added. A cap was placed on an employer's contribution rate.

That is what you were faced with, and I guess you have made some progress in trying to restore solvency to the State system.

Governor THOMPSON. Yes, sir, I think that illustrates perfectly well why the imposition of interest penalties by the Congress in 1981 was warranted. I believe my State acted irresponsibly in 1975 in forcing up the level of benefits and refusing to pay for them with revenues raised in the State. When I became Governor, we began efforts to put the State's balance aright, and they were rewarded in 1981 by $500 million worth of reform, and now we have to go back and do it again.

That is why I have suggested one of the areas of solution be the deferral for 2 years of the imposition of the interest, because you have substantially achieved what you set out to do by writing it into the law 2 years ago.

The CHAIRMAN. Senator Bradley?

Senator BRADLEY. Thank you very much, Mr. Chairman.

Governor, your proposals, you have made three proposals.

Governor THOMPSON. Yes, sir.

Senator BRADLEY. The first is the waiver of interest for the next 2 years. Is that correct? That is the National Governors Association.

Governor THOMPSON. Yes, sir.

Senator BRADLEY. Your second suggestion is what? This is the one you suggested as the Illinois suggestion?

Governor THOMPSON. This is the Illinois solution, yes, sir.

Senator BRADLEY. What is that, again? Would you summarize it?

Governor THOMPSON. That is to apply the FUTA tax cut offsets to the interest bearing debt, so that we could reduce that first, rather than have it apply to the noninterest-bearing or old debt. In other words, to shift the impact of the FUTA tax credit offsets.

Senator BRADLEY. And then the third one is, you want to have the FUTA cap apply in 1983 and on, and you kind of make this contingent that if States in the period 1982 to 1984 act to change their tax and benefit structure, and you use "significantly." What does that mean?

Governor THOMPSON. Well, I would suggest, Senator, that we would be glad to at the staff level provide you with specific language for an amendment that would detail both the continuance of the cap and the goals which we think States ought to be prepared to reach. I do not have such language here today, but I think we would be willing to supply that.

Senator BRADLEY. I would like to have anything you could provide.

Then, you mentioned the difficulty in trying to make whatever would be defined as significant changes in taxes and benefits, how it would be borne equally by labor and business, and if they failed to work it out, you and the legislature will work it out over a 2-week period. How do you feel about what part of the cost should be allocated to labor, and what to business in this crisis?

Governor THOMPSON. I would hesitate to answer that now, with all deference, Senator, because if I answer it now, it will be reported back in Illinois, and it will skew our effort to have business and labor work that out between themselves for the next 2 weeks.

Senator BRADLEY. I took from your comments, however, that you at least felt that the degree of difficulty and burden of proof really was more difficult to make on the side of labor, given the recession. Did I misunderstand what you said?

Governor THOMPSON. I think I probably did not go far enough. I think there are two sides to the coin, frankly, in talking to labor leaders in my State on this issue, and we worked closely together on UI in my States.

Senator BRADLEY. It is always the short-term, long-term problem, right? I mean, short term, you do not want to burden labor in a recession, but in the long term, you want business healthy enough so they can keep people working, right?

Governor THOMPSON. But it works the other way around, too. What I meant by my comment was obviously, if we ask business and labor to solve this among themselves, to divide the responsibility among themselves, a process which worked in 1981, they came up with a 50–50 solution. In fact, labor paid a little more.

The labor leaders in my State, because they have so many more people on unemployment compensation now, will find it more difficult to sell to their members benefit reductions, and in 1981 we were able to make structural reforms in our system.

Having made those structural reforms, they are no longer available to be made in 1983. On the other hand, the leaders of my State chamber of commerce and my State manufacturers association and my retail employees will also find it more difficult in 1983 to sell to their members higher taxes, because those businesses have been hard hit for the last 2 years, and are in relatively worse shape than they were 2 years ago. So it works both ways.

Senator BRADLEY. Do you have any opinion about the proposal in this piece of legislation to limit FSC to those who have been working 30 weeks instead of the current law, which is 20 weeks before you qualify for the extended unemployment?

Governor THOMPSON. No; the NGA has no position on that issue, and I have not addressed it as the Governor of the State of Illinois.

Senator BRADLEY. Thank you very much.

The CHAIRMAN. Senator Chafee?

Senator CHAFEE. Thank you very much, Mr. Chairman.

Governor Thompson, it is nice to see you again, and I appreciate the excellent testimony you gave. I think we are in a quandary here because the Federal Government has been imposing a penalty on those who are in the worst situation, and it has had a counterproductive effect. Those who are trying to scramble out of trouble have a burden imposed upon them in the form of an increase in the FUTA tax.

My State is up to the maximum, so the cap is in effect in our State. Consequently I am very sympathetic to your proposal. At the same time, however, the Federal Government is running a $200 billion deficit, with predictions that it might get worse.

Under your proposal, the States would not pay interest on loans. Obviously, if the State doesn't pay the interest, the Federal Government will have to.

Let me ask you a question, though. On page 6, where you begin outlining your recommendations, you we are proposing that States enact reforms. Now, what do you mean by a reform? For example, there are two States in the Nation who now pay benefits to strikers, and there are other States which provide benefits to strikers indirectly. Suppose those States do not choose to change? Unemployment compensation is meant for those who are truly unemployed. Strikers, as one example, are not.

Should we say, well, that is perfectly permissible and we will go ahead and waive the interest?

Governor THOMPSON. Let me try to pick my way carefully through the answer to that question. In Illinois, we do not pay an employment compensation to strikers, so as a matter of Illinois policy——

Senator CHAFEE. I know Illinois does not do that.

Governor THOMPSON. We do not do that. NGA has no——

Senator CHAFEE. I did not ask you to answer that——

Governor THOMPSON. I understand, Senator. NGA has no position on that issue. What it comes down to is a realization that in terms of fiscal impact, the departure of two States from what is otherwise a uniform national policy against paying strikers unemployment compensation would have little or no impact on the matters we are covering.

As a matter of philosophy, Congress might choose to call that reform, but requiring that of the States, I think, would have no significant fiscal impact.

Senator CHAFEE. What I am really saying, is that there are a series of issues involved here, strikers are simply one example, and it seems to me that if we are paying the bill, and that is what it comes down to, we are entitled to require some reform. Would you agree?

Governor THOMPSON. Yes, sir.

Senator CHAFEE. Or do we leave the reforms to the State legislature?

Governor THOMPSON. I think if we are asking you to pay the bill, you should have a broad latitude to define reform.

Senator CHAFEE. Fine. Now, I was interested in your first point that you are not asking that the interest be waived. You are asking only that it be deferred. Is that the NGA proposal?

Governor THOMPSON. Just so there is no misunderstanding, we are asking that the imposition be deferred, in other words, that we incur no liability for interest for those 2 years.

Senator CHAFEE. Oh, I see. I misunderstood. The imposition of the interest will be deferred, not the collection of the interest.

Governor THOMPSON. Right, but only because the imposition of the interest in our view was designed to, A, secure reform from the States, and it has in large measure, and we will have to do it again, and B, because it was imposed in the light of economic assumptions which we all relied upon, which have turned out not to be true. And the interest burdens have been made particularly onerous because of national economic policy within the control of the Con-

gress. We have put a time limit on it. We have not said forever. We have not said a ban on the interest principal. We have just said, please, do not collect it from us in the next 2 years.

Senator CHAFEE. In other words, not only should we not collect it from you for 2 years, but we should not impose it for 2 years.

Governor THOMPSON. Yes; that is right.

Senator CHAFEE. Thank you very much. I did not understand that.

Thank you very much, Governor. I am glad you are here.

The CHAIRMAN. Mr. Heinz?

Senator HEINZ. Let me welcome Governor Thompson and commend you, Mr. Chairman, on holding this hearing. It is an issue—not just this, but the extension of unemployment compensation benefits—in which many of our States, Northern industrial States in particular, have a tremendous interest.

Let me say by way of preamble that as I look back on the last several years, I think we have, unfortunately and largely unwittingly, imposed a burden which we did not foresee on Northern industrial States which have borne the brunt of this recession.

Two things come to mind, Mr. Chairman, one of which was the changing of trade adjustment assistance to be paid after unemployment compensation. We are going through a lot of tough times with imports. We used to pay trade adjustment assistance first, and then unemployment compensation benefits, and that has put a tremendous burden on State unemployment compensation funds.

It has cost the States more, because previously we, the Federal Government, used to pick up, in the case of eligible applications for trade adjustment assistance, that burden, as indeed I think was well contemplated under the 1974 and 1979 Trade Acts.

The second problem is that we have also slashed trade adjustment assistance just about out of existence, so it is hardly of any benefit after the State unemployment compensation and Federal supplemental benefits programs run out.

The third thing is that, since we no longer have in existence the so-called countercyclical revenue sharing approach, we have kind of a broad brush approach that helps everyone under general revenue sharing. We do not have any way of helping out those States that have the most difficult problems. So, I have tremendous empathy and sympathy for what Governor Thompson and the other Governors are proposing.

We have not really done much for them except make it tougher, and I think we are in danger, if we are not careful, of dividing this country into two different Americas, one a prosperous, fortunate Sun Belt, the other a much less fortunate, indeed, deeply stricken Northern, Midwestern industrial tier.

It is significant to me that in the last 3 months, even though unemployment went down last month, 15 Northern industrial States either did not have any decrease in unemployment or had their unemployment rates go up. So, when I say that we are in danger of becoming two Americas, one prosperous and the other poor, one fortunate and the other stricken, I do not think I exaggerate.

I want to say two things. First, I think we have to extend the Federal supplemental benefits program, not just for the 6 months, but I think we have to extend the number of weeks for those States

that are most deeply affected and stricken beyond the present maximum of 55.

I do not know whether the chairman is going to agree with that, but I can tell the chairman in a State like ours, in Pennsylvania, and I imagine it is true in Illinois, we simply find that our people are getting into intolerable straits, even though we have 55 weeks. They are losing their homes. Their mortgages are in default. Homes are being sold at sheriffs' sales.

These are people who have worked all of their lives. They did not ask to be unemployed. Along came some Japanese imports, or just bad economic times, and they lost their jobs.

Second, I intend to introduce legislation that I think will meet substantially similar goals and objectives on the unemployment compensation issue we have been discussing for the States that will provide a mechanism of freezing the tax cap so that we do not continue to burden employers in States which are already hard hit.

I salute Governor Thompson on having been very straightforward and saying that should be available only to States that undertake substantial reforms.

I think Senator Chafee is right on the question of interest. We do want to find a way to help you under 1983 and 1984 interest.

May I continue for 2 or 3 more minutes, Mr. Chairman?

The CHAIRMAN. [Nods affirmatively.]

Senator HEINZ. We do want to find a way to help you on your 1983 and 1984 interest. I would not want to underestimate the difficulty of barring any imposition of interest at all. Certainly, it would be to the benefit of my home State of Pennsylvania, your State, and many others if we could work that out, but I remember how difficult it was, how tough a bargain many people drove on the interest the first time around. I would not want to promise that we can do that, even though we will use our best efforts to get what I think will be a reasonable solution.

Senator CHAFEE. Also, getting the cap was difficult, as the Senator from Pennsylvania remembers, and the Governor of Illinois worked hard on that.

Senator HEINZ. Yes; that is correct. But it is this Senator's intention, and I do want to work with all of the interested members of the Finance Committee, to introduce legislation that will give the kind of relief that I know your State, my State, and many other States need with respect to the interest and the tax cap on unemployment compensation.

You and I have discussed this. Such legislation should be ready very shortly. I think while it may not in every particular—you have some new ideas—track your proposal, I think it will meet largely every goal you have set forth.

Let me ask you one question, if I may, regarding the requirements for improved solvency or getting State funds into a position where they can start making repayments, as you have suggested on page 5.

How specific or general do you think we ought to be? Should we give you, perhaps, as Senator Chafee has suggested—he mentioned one element. I do not know how many others he has in mind. Should we say there are certain things you must do, or should we

give you a more general guideline on what would account for a meaningful reform? What would be a meaningful reform package?

Governor THOMPSON. I think you could accomplish the goals that we seek and the goals that Congress must keep in mind for the Federal Government if you adopted language that is somewhere within the middle range between something so detailed that States might slip through inadvertently or something so general that you would not have any policy at all.

You might, for example, in terms of reform, require a phased in goal of reducing the disparity between revenues and benefits by X percentage in each year. For example, you might do a 3-year, 25 percent, 40 percent, 50 percent ending of the disparity. I think you could work out a combination of years plus percentage goals that would fit most States fairly comfortably, and give them the time necessary to work it out.

Senator HEINZ. We are working with the Labor Department on a percentage, an annual percentage improvement, and as soon as we have that costed out, we hope to be able to put it in, in the way of legislation, so we can all take a look at it.

Governor THOMPSON. Although I would caution, once again, as I said in my main testimony, that I think to avoid my having to come down here in 1985, it ought to be done with an eye on current economic projections and outlook so that we avoid the trap of 1981.

Mr. Chairman, if I could take 30 seconds to comment on the Senator's comment about the long-term difficulties, I see in my State of Illinois just the kind of division and the new circumstances you see, Senator. For example, in those private and public charitable institutions which have long existed in my State to feed people in economic distress, we are seeing changes in the kind of people who take advantage of those systems.

They are no longer for the benefit of the transient drifters that general assistance has supported who wander from State to State or locality to locality, essentially unemployed for all their lives. More and more we see young families with children come in, sometimes with great embarrassment and in great shame, to bring their families in to a feeding station, as it were, at the end of a week, or maybe 2 days a week, to make their budget stretch.

You are quite right. As both you and the chairman have recognized in conversations heretofore with me, we also need to do something, and I did not include this in the main body of my testimony, but I believe we need to do something to address a problem that has been ignored by the present unemployment compensation system, and that is to provide at least some minimal health protections for people on unemployment compensation, particularly for those who remain on for much longer than the system contemplated, or who are structurally unemployed, and who now literally fall through the cracks because they are not wealthy enough to buy it on their own.

They have lost the protection of their employment-related insurance, and they are not poor enough to qualify for medicaid, and yet they are often families with children, and they are at great risk, and we do nothing to provide help for them, though they have paid their taxes to support the system.

I commend that subject to the consideration of the committee as well.

The CHAIRMAN. Thank you very much, Governor Thompson.

Governor THOMPSON. Thank you, Mr. Chairman.

The CHAIRMAN. That is an area we are looking at. As you know we did discuss this in Chicago with the Governors of Michigan and Indiana and Minnesota. But we are also trying to determine how we can accommodate some of your concerns. The e is this general reluctance for the Federal Government to try to set standards for States in this area.

There has always been a resistance to that, but perhaps if we are going to be able to assist you, we may have to have some assurance that States are making changes to bring about solvency in each State. Otherwise, I do not think loan and interest relief will fly in the Congress. We, as the Governors recognize, have some deficit problems.

I met with a group of rather important business people this morning who say we do not really have a recovery. We have a blip in housing, or a bubble, and unless we do something in the outyears to lower those deficits, the recovery is not going to last. So I hope, with all of the good news we are reading and hearing, we do not lose sight of the real deficit problems in 1986, 1987, and 1988.

Governor THOMPSON. As the Chair, I think, knows, the National Governors Association made the most radical alteration ever in their policy on Tuesday of this week, when we in essence adopted a resolution urging the President and the Congress to bring down the structural deficits of the Federal Budget to approximately $90 billion as a target goal by 1988, a suggestion largely in line with the suggestions of the so-called Peterson group of 500.

That was no easy task, and it provoked a battle royal within the association, but we prevailed by a substantial vote. To put the Governors on the frontline in such tender political areas as reform of medicare and social security and cuts in the increase of defense spending and the imposition of new Federal taxes was an exhilarating experience for us. I will put it that way.

But that is how seriously we feel, in agreement with your observation that long-term prospects of a Federal deficit could absolutely destroy prospects of short-term or long-term recovery, and we have decided to join the battle and give you all of the protection that we think you will need as you tackle those subjects.

The CHAIRMAN. Thank you very much.

Senator HEINZ. Mr. Chairman, would you yield for an observation?

The CHAIRMAN. Yes.

Senator HEINZ. First, you mentioned health insurance, and I just want you to know, Governor Thompson, that Senator Dole and I and our staffs in particular——

The CHAIRMAN. Senator Riegle, too, who happens to be in the audience.

Senator HEINZ. [continuing]. Have been working for a number of weeks to try to find a responsive and responsible mechanism for making some kind of affordable health insurance available to people who are unemployed. I think we are making some progress on that. It is not easy, because none of the solutions are cheap.

None are simple. Some things look simple on the surface, but they turn out to be more complicated than you think.

But I believe we are making some progress, and I look forward to a meeting of the minds on that.

The only other observation I want to make is that on the unemployment compensation relief that we got, at least 2 years ago, we thought it was relief, it did not turn out to be as much relief as we had hoped, because of economic conditions, but the tax cap and the postponement of any interest, and the relatively moderate rate of interest, and the reasonable provisions for the States that I think help States become more solvent, could not have been achieved without the support of the chairman of this committee.

His State was not affected in any significant way by those reforms. I want to thank publicly the chairman of the committee for all the help he gave us 2 years ago. I know that this is an issue he is concerned about, again, and Mr. Chairman, I just wanted to thank you publicly once again for that help.

The CHAIRMAN. Thank you.

Governor THOMPSON. I would add my thanks to that, and my pledge of support from the National Governors Association to the chairman and the members of this committee and the Members of the Senate, and for some help on the other side of the Capitol, and at the other end of Pennsylvania Avenue.

The CHAIRMAN. If we can find some reasonable approach, and if we determine to add that to social security, then we will be in conference.

Thank you very much, Governor.

We are now honored to have two of our own colleagues, Senator Riegle and Senator Levin from Michigan, and they have a distinguished witness, Hon. Gary Corbin, majority leader, Michigan State Senate, and vice chairman of the National Conference of State Legislatures, accompanied by Timothy Kaltenbach, administrative assistant, senate Democratic staff in Michigan.

We are certainly pleased to have the two Senators of Michigan. They have been very helpful as we have tried to address this problem. We are going to try to accommodate some of their concerns, but we will have to try to work it out together, because there are certain limits that we have.

I have to go over and work on a commodity bill we are all three cosponsoring. Senator Heinz will preside for a few moments.

We are glad to have you here.

STATEMENT OF HON. DONALD W. RIEGLE, JR., A U.S. SENATOR FROM THE STATE OF MICHIGAN

Senator RIEGLE. Mr. Chairman, I would like to commend you personally for your leadership as a Senator and the chairman of this committee in dealing with the problems stemming from the severe unemployment problem in the country.

The commodity food issue, and the unemployment issue, the extension of unemployment compensation benefits, the issue of trying to provide health insurance for unemployed workers and their families are all issues you have been directly and personally involved in in a very constructive way. I want to thank you for your atten-

tion to these issues which continues today in the form of these hearings. Your work in these areas means a great deal to the people of our State and the country.

So, I am very grateful that we have been able to work together on a bipartisan basis in addressing these issues. I really think this is the key to finding some practical solutions.

I want to say as well in terms of the subject that we are here to discuss namely unemployment compensation and unemployment debt relief that I would agree with you, there does have to be an additional showing of effort by many of our States.

We have drafted legislation which we have just introduced which would require States to make that additional effort before they could qualify for help that we could legislate into place to ease these burdens. I hope we will take those steps, because we are not talking about isolated cases. We are talking about virtually half the States in the Union.

The CHAIRMAN. About 30.

Senator RIEGLE. Substantially more in terms of the percentages of the country, because of the population of the States involved. So we are talking about a massive national problem that needs a response, and I might say that the witness you are going to hear Senator Gary Corbin from Michigan, is one of the people in the country most knowledgeable on these issues, and perhaps best equipped to speak about it.

He comes today as a spokesperson for the National Conference on State Legislators, which he officially represents. He also comes as the majority floor leader from the Michigan Senate. He is the chairman of the Michigan Senate Committee on Finance and Municipalities, and he is also the vice chairman of the State senate committee on labor.

I have known and worked closely with Gary Corbin for many years. We come from the same area of Michigan. I can say to you that this is not only an eminently qualified witness who is directly involved in these problems, but I think you will find his comments as straightforward, practical and reasonable as any you might hear.

So, I am honored to accompany him and introduce him to the committee.

The prepared statement of Senator Don Riegle follows:]

NEWS RELEASE

Don Riegle

U. S. SENATOR, MICHIGAN

1205 Dirksen Washington, D.C. 20510 (202) 224-4822

RELEASE: On Receipt
Wednesday, March 2, 1983

Contacts: Mike Russell
Jerry Lindrew or John Fawley

RIEGLE BILL WILL EASE INTEREST PAYMENTS, TAXES ON STATES' UNEMPLOYMENT DEBTS

Washington, DC--U.S. Senator Donald Riegle today introduced legislation aimed at easing huge daily interest charges several states are being forced to pay to the federal government because of their debts to the Federal Unemployment Acccount. The debts have been incurred because the states are unable to finance their unemployment compensation programs out of state funds and have been forced to borrow from the federal account. Riegle's home state of Michigan, for example, has been forced to borrow $2 billion from the federal government, and is being charged interest at the rate of $216,000 a day. A second part of the Riegle bill would lower a penalty tax that Michigan employers are forced to pay because of the state's inability to stay current on repayment of the debt.

Senator Riegle said: "Michigan is a proud state that is struggling to recover from the economic malaise that has afflicted it. The state has recently undertaken major surgery on its unemployment insurance laws. These changes include benefit reductions and tax increases that will generate over $3.5 billion in additional revenues over the next four years, and a freeze in benefit levels for the next four years. Needless to say, these changes were painful ones, taken under the most desperate of circumstances."

"It makes no sense," said Riegle, "for the federal government to continue to extract interest and penalty charges from states like Michigan that have a large borrowing for unemployment benefits."

Specifically, the Riegle bill would exempt a state from interest charges on its unemployment debt if the state enacts legislation that raises additional funds to pay unemployment benefits, as Michigan has done. Currently, a state is required to pay 10% annual interest on advances taken from the Federal Unemployment Account after April 1, 1982. The interest penalty was imposed in the Budget Reconciliation Act of 1981. Riegle said the exemption is necessary because those states suffering the highest unemployment for the longest periods simply cannot repay loans quickly to avoid interest charges.

Along with the huge daily interest penalties that Michigan and other high-unemployment states are being forced to pay, individual Michigan businesses have also been required to pay a 0.3% penalty tax. The Riegle legislation would ease this burden on businesses by changing some of the requirements that have forced imposition of the penalty tax.

(more)

The current regulations prevent a state from having an outstanding loan balance higher than that of three years ago. Riegle's bill would remove that regulation for obvious reasons: because of the high unemployment experienced by many states, virtually no state will meet this requirement in the next two years, and the penalty tax would stay in force.

The bill would also eliminate the criterion that requires a state's average tax rate to equal or exceed that state's average benefit cost rate for the five prior years. According to Riegle, the current formula places too much emphasis on prior years when economic conditions differed radically from today. Riegle would replace the current "5-year average" with a new "calendar year" requirement that more accurately reflects both present-day economic conditions and actions that states have taken to get their Federal Unemployment Account debts under control.

Senator Riegle said: " 23 states owed money to the account at the end of 1982. Another 13 states may become insolvent by the end of 1983 as a result of escalating unemployment benefits. Now is the time for Congress to grant states the opportunity to offset the devastating effects of the economic crisis they are experiencing."

"The resolution of these problems requires a joint effort on the part of the federal and state governments," said Riegle."The legislation I am introducing today will provide relief from interest payments and penalty taxes for those states reeling under the effects of a deep recession."

The Riegle measure was developed in consultation with state officials in Michigan and is a variation of a bill introduced by Senator Riegle in the last Congress. Riegle said: "I have been fighting for two years to bring this problem to the forefront of the Senate. In view of the fact that over a dozen states now have similar problems, we have a pretty good chance to pass this vitally-needed legislation to help Michigan citizens and businesses."

Savings for Michigan--Unemployment Insurance Debt Bill

Interest Exemption (Effective January 1, 1983)

$75-100	million	1983
75-100	million	1984
58	million	1985
18	million	1986
$226-276	million	Cumulative

Tax Savings for Michigan Businesses

$69	million	1984

Source: Michigan Employment Security Commission

The CHAIRMAN. Thank you very much, Senator Riegle.
Senator Levin?

STATEMENT OF HON. CARL LEVIN, A U.S. SENATOR FROM THE STATE OF MICHIGAN

Senator LEVIN. Mr. Chairman, let me add first a note of thanks to you. You have been directly, personally, deeply involved and committed in this area. Last year, you along with a number of other members of this committee took some action to help provide some partial relief. It turned out to be very partial, but it was very well intentioned, and may yet prove somewhat helpful.

Needless to say, with the problems we have now in Michigan and other States, the problem is so massive that what we tried to do last year is really a very small part of the solution, but again you and other members of this committee have already demonstrated a real commitment to providing some relief in this area, and we in Michigan and other States with this problem are deeply grateful to you and other members of this committee.

You mentioned a moment ago that it is important that States help put their own houses in order, and attack their own deficits. Senator Corbin comes today from the State capitol, where they are doing exactly that, where they are drastically increasing taxes, and where they are drastically cutting expenditures in order to meet some of the financial problems they have in our home State of Michigan.

The problem we face here and the problem he will address himself to is making financial recovery very difficult in Michigan, despite their best efforts at raising taxes and cutting benefits and expenditures. The imposition of taxes in order to pay off interest and prior debt in this area of these loans is making that recovery in Michigan that much more difficult.

So, Senator Corbin comes to you from a State capitol where they are making the efforts which you and many others of us believe are necessary, and I know he will outline for you exactly what we are doing in Michigan, and despite that fact, how the burdens of the interest payments and the principal payments on these loans from the unemployment fund are making recovery that much more difficult, and are hampering recovery in the State of Michigan.

So, I do again want to thank you and other members of this committee who have been so helpful. I am delighted to be here today with Don Riegle to introduce an old friend and a very distinguished member of the Michigan Senate, Gary Corbin.

The CHAIRMAN. Thank you very much.

The record should certainly indicate that we have had tremendous cooperation from both senators of Michigan, and we are going to try to work something out. We know there are real problems. We know that Michigan made drastic changes in a special session, as I recall, was it last December? So you have bitten the bullet, and I see you are getting ready to bite it again. We understand some of the concerns of States like Michigan, Pennsylvania, Illinois, and others, who have very serious problems.

We hope we can address them, and if we can, since the House has now added an unemployment provision to social security, and

since that is germane, we may do something on the Senate side. We are trying to keep other, nongermane amendments—I can think of one in particular—away from that proposal.

So, we are happy to have you.

Senator LEVIN. Thank you again.

STATEMENT OF HON. GARY CORBIN, MAJORITY LEADER, MICHIGAN STATE SENATE, AND VICE CHAIRMAN, NATIONAL CONFERENCE OF STATE LEGISLATURES, ACCOMPANIED BY TIMOTHY KALTENBACH, ADMINISTRATIVE ASSISTANT, STATE DEMOCRATIC STAFF

Mr. CORBIN. Thank you very much, Mr. Chairman.

I do know you must leave. I appreciate Senator Riegle's and Senator Levin's kind remarks and introductions. I have been biting the bullet so much the lead in my teeth is starting to hurt.

But I want to say before you leave that I met with Governor Blanchard last night, and he wanted to express his deep appreciation also for your sensitivity to this issue and the opportunity to meet with you in Chicago to discuss this issue.

The CHAIRMAN. He told us some of the tough things he had to do which he admitted were counter to his philosophy, but he had to do them.

Mr. CORBIN. They are drastic measures. Senator Noah Wenger, chairman of the Labor and Retirement Committee of the Pennsylvania Senate, has asked that I place in the record a statement on his behalf, which I would be pleased to do.

Senator HEINZ. Without objection, so ordered.

[The material referred to follows:]

STATEMENT OF

SENATOR NOAH W. WENGER, CHAIRMAN

SENATE LABOR & INDUSTRY COMMITTEE OF PENNSYLVANIA

TO

THE U.S. SENATE FINANCE COMMITTEE

MARCH 3, 1983

The current federal unemployment compensation loan repayment provisions will penalize states for high unemployment. For 1983 alone, these provisions will cost Pennsylvania $100 million in interest charges and force our employers to pay an additional $70 million in federal unemployment compensation taxes at a time when we can least afford it.

Over the past decade, Pennsylvania has been struggling with back to back recessions which have increased demands for government services and reduced the revenues needed to pay for them.

The two greatest problems we must solve in 1983 are an estimated $235 million budget deficit and a $2.8 billion unemployment compensation debt. The solutions to these problems will be painful - increased taxes when many of our taxpayers are struggling to make ends meet and/or a reduction in government services when they are needed most.

In addition to these economic difficulties this year, we are faced with an automatic federal tax increase on our employers and a $100 million interest payment to the federal government. These measures are part of the Federal Unemployment Tax Act that were designed to recoup loans made to states to pay unemployment compensation benefits and to encourage states to balance their unemployment compensation systems.

In 1980, Pennsylvania moved very forcefully to correct the imbalance in its

system and to generate sufficient funds to begin reducing its debt to the federal government. Changes in benefit eligibility were made resulting in reductions in program costs of $150 million per year. Employer taxes were increased by an annual total of $400 million initially, increasing by another $100 million in 1982. This was the largest single business tax increase in the history of our state. Changes totaling $650 million dollars in annual improvement to the fund can certainly be characterized as the most serious kind of effort on the part of my state. Based upon the economic projections available in 1980, we were confident that the major reforms enacted by our legislature would have the immediate effect of putting our fund into the black, thus permitting repayment of our debt over a period of time.

To enhance our ability to do so, Pennsylvania also worked to have the federal unemployment compensation loan repayment provisions made more reasonable. We urged Congress to allow a freeze of the automatic federal tax increase if a state met solvency conditions and we accepted interest on future borrowing as a deterent to future borrowing.

At the time it was predicted that the economy would begin to improve in late 1981. Unfortunately, the economy stagnated and by mid 1982, Pennsylvania was experiencing record high unemployment. The effect on our Unemployment Compensation Fund was devastating. Last year we spent twice as much as we brought in for unemployment compensation despite the 1980 amendments to our law. Both the federal and state Departments of Labor had predicted that Pennsylvania would borrow little or nothing in 1982.

We ask that you review the present loan repayment provisions and interest charges in light of economic conditions. We recognize that the increased repayment provisions and the interest charges are needed to discourage states from continual borrowing. We only ask that you give us a chance to recover from

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our current economic woes before you impose penalties.

More changes will be needed in our Unemployment Compensation Laws. Our Governor is in the process of developing comprehensive changes to our unemployment compensation system which we expect to act upon in the very near future.

Please help us to solve this problem rather than to be drowned by it.

THE GENERAL ASSEMBLY OF PENNSYLVANIA

SENATE RESOLUTION No. 18

A CONCURRENT RESOLUTION

MEMORIALIZING CONGRESS TO TAKE CERTAIN ACTIONS RELATING TO UNEMPLOYMENT COMPENSATION.

WHEREAS, UNEMPLOYMENT IN PENNSYLVANIA AND THROUGHOUT THE UNITED STATES IS AT A HIGH LEVEL; AND

WHEREAS, MANY PENNSYLVANIANS WILL LOSE THEIR INCOME WHEN THE FEDERAL SUPPLEMENTAL COMPENSATION PROGRAM EXPIRES; THEREFORE BE IT

RESOLVED (THE HOUSE OF REPRESENTATIVES CONCURRING), THAT THE GENERAL ASSEMBLY OF THE COMMONWEALTH OF PENNSYLVANIA MEMORIALIZE THE CONGRESS OF THE UNITED STATES TO ADOPT LEGISLATION WHICH WOULD ADD ADDITIONAL WEEKS OF TOTALLY FEDERALLY FUNDED FEDERAL SUPPLEMENTAL COMPENSATION AND THAT THE FEDERAL SUPPLEMENT COMPENSATION PROGRAM BE EXTENDED BY CONGRESS FOR AT LEAST SIX MONTHS; AND BE IT FURTHER

RESOLVED, THAT THE GENERAL ASSEMBLY OF THE COMMONWEALTH OF PENNSYLVANIA MEMORIALIZE THE CONGRESS TO ADOPT LEGISLATION TO PERMIT THE WAIVER OF INTEREST DUE ON LOANS MADE BY THE FEDERAL GOVERNMENT TO THE STATE FOR UNEMPLOYMENT COMPENSATION PURPOSES AND THAT THE PROVISIONS REQUIRING PAYMENT ON INTEREST ON FUTURE LOANS BE SUSPENDED UNTIL AT LEAST DECEMBER 31, 1984; AND

RESOLVED, THAT COPIES OF THIS RESOLUTION BE TRANSMITTED TO THE PRESIDING OFFICERS OF EACH HOUSE OF CONGRESS AND TO EACH MEMBER OF CONGRESS FROM PENNSYLVANIA.

Mr. CORBIN. Mr. Chairman, I have prepared a lengthy statement which I do not plan to read. I presented that to the committee. I thought this morning that I might be able to express not only on behalf of the National Conference of State Legislatures, but also on behalf of the State of Michigan, our concern in two areas particularly. My statement that I presented to the committee basically deals with the extension of Federal supplemental compensation, and also the suspension of interest requirements on future loans and a cap on the penalty FUTA tax.

Those are the two specific areas I am attempting to address and have addressed in my lengthy remarks, but I would like to share in a little more personal detail where I have come from.

I serve as the floor leader of the Michigan Senate. I chair the Senate Finance Committee, and as was mentioned before, I am the vice chairman of the Senate Labor Committee.

Michigan has undoubtedly been hit the hardest of any State by unemployment figures that have stayed in the double digits for over 30 months, since 1980. I served in the Michigan Senate in the Flint, Genesee County area. In my district, the city of Flint has suffered unemployment in an excess of 23 percent. In Genesee County, a large, urban county, the rate of unemployment is over 21 percent. I feel too well qualified to speak on this subject.

I have served now my ninth year in the Michigan Senate. Prior to that I was a county commissioner for 4 years in Genesee County, and during that time I served that community for 6½ years as a minister of a church.

I bring to you today facts and figures, and there is a tendency for me as well as anyone else to forget faces and names, but my previous calling helps remind me.

The incidence of child abuse and spouse abuse, the incidence of crime, mental health problems are extremely grave in our community. We have attempted to address them as best we can, both from a public posture and also, in a sense, from the private community responding to those needs, and yet those names and faces come back to haunt us.

What we do, and the opportunities you have to assist at this point today and in the future perhaps will not change the names and faces. Those pains will be with us for decades to come, and we will have to pay for them in some form or fashion, but maybe we can resolve that that pain does not need to be extended to others.

In serving that community, I hope to bring those names and faces to my Senate district.

We are proud Americans in Michigan, as well as there are proud Americans in many other States, and when we are faced with problems, we attempt to respond to them. We are not satisfied to say that it is someone else's problem. As you well know, Michigan has been a high wage per capita income State. We are not displeased with that. We have also had the opportunity to be a high tax-paying State. We are not displeased at that. We know that our tax dollars in Michigan have gone to share in meeting needs throughout this Nation and this world, to solve many problems.

We are asking today that when we have met difficult times, that we have a sense of response, too. We are in the midst of those difficulties. Your response to us would be most gratifying. You have re-

sponded to us in the past. We have deeply appreciated that. We ask for that response again.

We have made many changes in the way we do business in Michigan. As chairman of the Senate Finance Committee, I have had to deal with every tax increase that Michigan has undergone in the last few years. We raised our transportation taxes last year. It was needed.

The infrastructure in Michigan was crumbling. We needed to keep it and maintain it if our economic base was to be strengthened into the future. We faced that obligation in spite of an election year, and passed the tax. We passed the temporary increase in our State income tax in the midst, once again, of an election year, because of the obligations of our budget.

By the way, Michigan is required to have a balanced budget. We have done exactly that for the last several years. If I might continue, Mr. Chairman.

Senator HEINZ. Please proceed. In fairness to the chairman, the real chairman, we have a number of witnesses, so try not to exceed it too much.

Mr. CORBIN. I will try to contain my remarks.

If we would use the President's formula that he expressed to the Nation in the state of the Union, a freeze of Federal spending and not allow growth to exceed inflation, had we placed that same formula into our budget in 1979 and 1980 in Michigan and kept it there, we would be able to spend an additional $1 billion today over what we are spending.

We are spending less actual dollars in our general fund budget this year than we were in our 1979–80 budget year. We have reduced our purchasing power by 30 to 35 percent. I have received from the House of Representatives yesterday in the Senate Finance Committee an increase in our income tax once again of 38 percent. In fact, I would encourage some of you to join me in that committee to add a quorum. We need some statesmen in the Senate side, too.

Senator HEINZ. Looking around, we may need some of yours, too. [General laughter.]

Mr. CORBIN. But we also dealt with our unemployment problem. We tackled that at the end of last year under the leadership of our former Governor, Governor Milliken, and under the encouragement of our Governor-elect, Governor Blanchard, the legislature met a desperate problem. We increased our taxes on the employer-based community of our State in the next 4 years by over $2.5 billion. We feel that our obligation to repay our debt is a legitimate obligation, and we have not only talked about it, we have responded to it, and we have increased that tax.

Working men and women in our State have undergone additional burdens, too, in the reduction of benefits, the freezing of any escalation of benefits into the future, and also additional costs in relationship to benefit qualification requirements, at a cost of over $1.1 billion. Our community has attempted to respond, and we will continue to do so.

Our question today, though, is, could we not get a continued response from this committee and this body in relationship to our continued interests costs that are now costing the State of Michi-

gan $2.50 every second, $216,000 a day in interest costs alone, taking immense quantities of capital investment out of our State when we need capital investment so importantly?

So, our question and our plea to you is the continuation of your sensitivity to this issue.

We would be happy to attempt to answer questions.

[The prepared statement of Mr. Corbin follows:]

Prepared Statement of Senator Gary Corbin

Mr. Chairman, Members of the Committee: my name is Gary Corbin and I serve as the majority floor leader of the Michigan Senate, and as vice-chairman of the Senate Labor Committee. I am here today to share with you my views and the views of the National Conference of State Legislatures on the topic of unemployment compensation. Let me first address the proposal made by the Administration, and then concerns about the U.I. program itself.

The NCSL and I both urge you to extend the Federal Supplemental Compensation program (FSC) as literally millions of people are currently unemployed, have exhausted their unemployment benefits, and still have no immediate hope of finding a job. It is important that these additional benefits continue to be paid from federal general revenues rather than either state or federal U.I. trust funds because the prolonged recession has left no reserve in these employer paid trust funds to cover the cost, and because the program is really one of income support during an economic recession, something the trust funds were never meant to finance.

The Administration is proposing to change the eligibility requirements for this extension of FSC. Because of the severe level of unemployment, I can see no reason to change them at this time. Two versions of the program have been enacted without any pattern of abuse. To change the program now would arbitrarily exclude some recipients from further benefits, persons who have already been out of work at least one year.

Within the program itself the Administration is proposing changes to allow these funds to be used for job training purposes or as a wage subsidy for an employer. There is an important difference between job creation and job training. In the state of Michigan today, there are few if any employers unable to hire people because they lack the training needed for a specific job. Our problem is the need for the jobs themselves. A wage subsidy of a few hundred

DOLLARS WILL NOT ENTICE A COMPANY TO HIRE SOMEONE IF THERE IS NO JOB AVAILABLE. FURTHER IT WOULD BE A DISINCENTIVE TO HIRING PERSONS WHO HAD EXHAUSTED ALL BENEFITS IN FAVOR OF THOSE WHO STILL HAD FSC BENEFITS AVAILABLE.

IF THERE WERE TO BE CHANGES IN THE PROGRAM, LET ME MAKE A FEW SUGGESTIONS FROM MICHIGAN'S POINT OF VIEW. FIRST, THE JOB SEARCH PROVISIONS SHOULD BE SIMPLIFIED AND MADE MORE REALISTIC BOTH FROM THE STATE ADMINISTRATIVE VIEW POINT AS WELL AS FROM THE CLIENT'S. THERE ARE MANY AREAS OF THE COUNTRY WHERE THERE ARE ONLY A FEW MAJOR EMPLOYERS. IN SUCH CASES, WHETHER OR NOT THEY HAVE ANY JOBS IS COMMON KNOWLEDGE IN THE COMMUNITY. THE USE OF LIMITED RESOURCES BY A CLIENT TO CONTINUALLY VISIT THESE PLANTS OR BUSINESSES, OR TO CONTINUALLY VISIT SMALLER EMPLOYERS ON AN ALMOST WEEKLY BASIS AND TO REPORT ALL OF THIS TO THE STATE IS A POINTLESS AND EXPENSIVE REQUIREMENT. RULES AND REQUIREMENTS FOR THE JOB SEARCH COMPONENT FOR FSC SHOULD BE MUCH MORE FLEXIBLE TO ALLOW STATES TO RESPOND TO THE EMPLOYMENT SITUATION AS IT VARIES THROUGHOUT THE COUNTRY AND WITHIN EACH STATE.

SOME SERIOUS CONSIDERATION SHOULD BE GIVEN TO REVERSING THE ORDER OF BENEFIT PROGRESSION IN ORDER TO MOVE ALL UNEMPLOYED WORKERS DIRECTLY FROM THE BASIC U.I. BENEFITS TO THE FSC PROGRAM, WITH THE EXTENDED BENEFITS PROGRAM (EB) BEING THE LAST BENEFITS AVAILABLE. THOSE 21 STATES STILL PAYING EB BECAUSE OF THEIR HIGH LEVEL UNEMPLOYMENT ARE AT A DISADVANTAGE BECAUSE EB BENEFITS ARE SUPPORTED 50% BY STATE TRUST FUNDS AND 100% BY THE EMPLOYER TAX. THE FSC PROGRAM IS AN ADMISSION THAT THE NATIONAL ECONOMY IS CAUSING A SEVERE DISRUPTION IN THE SEARCH FOR EMPLOYMENT. THE DIFFERING NUMBER OF WEEKS AVAILABLE TO VARIOUS STATES ALREADY POINT OUT THAT THE PROBLEM IS MORE SERIOUS IN SOME STATES THAN IN OTHERS. IT IS ONLY LOGICAL TO EXTEND THE THIS CONCEPT FURTHER AND TO REMOVE THE PENALTY CURRENTLY EXTRACTED FROM HIGH UNEMPLOYMENT STATES, I.E. THE PAYMENT OF 13 WEEKS OF EB FROM EMPLOYER TAXES, BEFORE THE FEDERAL SUPPORT IS AVAILABLE TO

THE JOBLESS IN THOSE STATES.

NOW LET ME TURN TO AN ISSUE THAT IS EQUALLY GRAVE AND WHICH WAS NOT A PART OF THE ADMINISTRATION'S PROPOSAL, THAT IS, THE UNINTENDED CONSEQUENCES OF THE OMNIBUS RECONCILIATION ACT OF 1981. IN THAT LEGISLATION, STATES WERE FIRST REQUIRED TO PAY INTEREST ON LOANS ADVANCED TO THEM FROM THE FEDERAL TRUST FUND, BUT, IN EXCHANGE FOR TAKING STEPS TO INSURE GREATER SOLVENCY OF THEIR STATE UNEMPLOYMENT INSURANCE PROGRAMS, THEY WERE GIVEN RELIEF FROM THE AUTOMATIC REDUCTION OF THEIR EMPLOYER TAX CREDIT. THE STANDARDS ESTABLISHED WERE INTENDED TO PROVIDE FURTHER INCENTIVE TO STATES TO STRENGTHEN THEIR PROGRAMS. THE BURDEN OF THE INTEREST COST ITSELF WAS INTENDED AS A MAJOR INCENTIVE; THE PENALTY TAX CAP WAS DESIGNED TO HELP ANY STATE WHICH WAS TEMPORARILY EXPERIENCING HIGH UNEMPLOYMENT AND WHICH HAD MADE SIGNIFICANT REFORMS IN THEIR PROGRAMS TO NOT BE ASSESSED THE FULL BURDEN OF THE TAX CREDIT REDUCTION.

I AM HERE TODAY ON BEHALF OF THE NCSL AND THE STATE OF MICHIGAN TO SAY THAT THIS PAIR OF INCENTIVES IS HAVING A SERIOUS COMBINED EFFECT ON A NUMBER OF STATES EXPERIENCING HIGH UNEMPLOYMENT, AND TO ASK THAT THE LEGISLATION YOU ARE ABOUT TO CONSIDER TO EXTEND THE FSC PROGRAM BE BROADENED TO ADDRESS THIS PROBLEM. THE NATIONAL CONFERENCE OF STATE LEGISLATURES IN DECEMBER OF 1981 RECOGNIZING THE PROBLEMS OF SEVERELY HIGH LEVELS OF UNEMPLOYMENT IN CERTAIN ECONOMIC SECTORS AND REGIONS OF THE COUNTRY, ADOPTED A POLICY STATING THAT IF A STATE'S UNEMPLOYMENT RATE WAS AT A GIVEN PERCENTAGE OR MORE ABOVE THE NATIONAL AVERAGE, AND IF THAT STATE TIGHTENED ITS ELIGIBILITY STANDARDS AND THUS IMPROVED THE SOLVENCY OF ITS PROGRAM, THAT STATE SHOULD BE RELIEVED OF INTEREST COSTS AND FROM ANY FURTHER DECREASE IN THEIR EMPLOYER TAX CREDIT UNTIL THEIR UNEMPLOYMENT RATE CAME BACK WITHIN THAT PERCENTAGE RANGE. THE INTENTION WAS--AND THIS POLICY WAS ADOPTED BY 3/4 OF THE STATES--TO PROVIDE TEMPORARY RELIEF TO STATES EXPERIENCING VERY HIGH UNEMPLOYMENT ALONG WITH ENCOURAGING THEM TO TAKE STEPS TO

IMPROVE THE SOLVENCY OF THEIR PROGRAMS. I AM ASKING THAT THE FEDERAL LEGISLATION BE CHANGED TO REFLECT THIS SAME UNDERSTANDING.

CURRENTLY, IN ORDER TO QUALIFY FOR THE CAP ON THE FUTA PENALTY TAX A STATE MUST DEMONSTRATE THAT:

1. THE NET SOLVENCY OF ITS U.I. SYSTEM HAS NOT DIMINISHED;
2. THERE HAVE BEEN NO DECREASES IN ITS UNEMPLOYMENT TAX EFFORT;
3. ITS AVERAGE TAX RATE FOR THE CALENDAR YEAR EQUALS OR EXCEEDS ITS AVERAGE BENEFIT COST RATE FOR THE PRIOR FIVE YEARS; AND
4. THE OUTSTANDING LOAN BALANCE AS OF SEPTEMBER 30TH OF THE CALENDAR YEAR IS NOT GREATER THAN ON THE THIRD PRECEDING SEPTEMBER 30.

THE CRITERIA FOR OBTAINING THE CAP HAS BECOME INCREASINGLY MORE DIFFICULT TO SATISFY. IN 1981 AND 1982, ONLY CRITERIA (1) AND (2) NEEDED TO BE SATISFIED FOR CAP ELIGIBILITY. BEGINNING IN 1983, HOWEVER, ALL FOUR CRITERIA MUST BE SATISFIED. IT IS MY UNDERSTANDING THAT ONLY ONE STATE OF THOSE HOLDING LOANS WIL BE ABLE TO QUALIFY FOR THIS CAP.

AT THE END OF 1982, FIFTEEN STATES HELD INTEREST BEARING LOANS AND ALL OUTSTANDING LOAN BALANCES TOTALLED $10.6 BILLION. IN JANUARY OF 1983, 19 STATES REQUESTED LOANS TOTALLING $1.4 BILLION; AT THAT POINT 24 STATES HAD OUTSTANDING LOANS. CURRENT PROJECTIONS ARE THAT BY THE END OF 1983, 35 STATES WILL HAVE BORROWED FUNDS TO PAY UNEMPLOYMENT INSURANCE BENEFITS, AND BY THE END OF FY 1984, 39 STATES WILL HAVE BORROWED. THE TOTAL STATE U.I. LOAN DEBT IS PROJECTED TO BE $16.9 BILLION IN FY 1983 AND $23.3 BILLION IN FY 1984. THE FUTA OFFSET CREDIT REDUCTIONS WILL RAISE $622 MILLION IN FY 1983 AND $976 MILLION IN FY 1984. THE CREDIT REDUCTIONS ARE ACTUAL LOSSES OF INCOME TO STATE TRUST FUNDS. THE PRESIDENT'S FY 1984 BUDGET PROJECTED THAT FOUR YEAR TOTALS (FY 1983 TO FY 1986) WOULD BE:

STATE LOANS - $24 BILLION

INTEREST OWED - $4.8 BILLION

CREDIT REDUCTIONS - $6.2 BILLION.

THESE ARE VERY SIGNIFICANT FIGURES TO STATES WHICH ARE EXPECTING CONTINUED LOW REVENUES AND HIGH PROGRAM COSTS FOR THE COMING TWO YEARS REGARDLESS OF THE SPEED OF THE ECONOMIC RECOVERY. THE 1975 EXPERIENCE TAUGHT US THAT A ONE TO TWO YEAR LAG IN STATE RECOVERIES IS TO BE EXPECTED.

MICHIGAN'S STORY IS, I THINK, A SOBERING EXAMPLE OF THE RECESSION'S AFFECT ON THE INCENTIVES ENACTED IN 1981. (MICHIGAN INFORMATION.

1. UNEMPLOYMENT
2. REFORMS ENACTED
3. COST OF INTEREST
4. COST OF PENALTY TAX)

MR. CHAIRMAN, I BRING YOU THESE CONCERNS WHILE AT THE SAME TIME EXPRESSING TO YOU MICHIGAN'S GRATITUDE FOR LANGUAGE WHICH WAS INCLUDED IN THE TAX EQUITY AND FISCAL RESPONSIBILITY ACT OF 1982 WHICH DID PROVIDE SOME RELIEF THROUGH A TEMPORARY DEFERRAL. HOWEVER, THE RECESSION HAS BEEN MUCH DEEPER THAN ANYONE EXPECTED. I ASK PERMISSION TO PLACE IN THE RECORD A STATEMENT BY SENATOR NOAH WENGER OF PENNSYLVANIA IN BEHALF OF THE PENNSYLVANIA SENATE. IN 1980, THEY ENACTED REFORMS WHICH BOTH THE PENNSYLVANIA DEPARTMENT OF LABOR AND THE U.S. DEPARTMENT OF LABOR SHOULD HAVE KEPT THEM FROM ANY FURTHER BORROWING THROUGH 1983. BUT THIS YEAR THEY ARE FACING $100 MILLION IN INTEREST PAYMENTS AND $170 MILLION IN GREATER CREDIT REDUCTIONS.

THE RECESSION HAS ALSO HURT THE FEDERAL GOVERNMENTS' RESOURCES AND WE ARE AWARE OF THIS. HOWEVER, IN THE SPIRIT OF STATE-FEDERAL COOPERATION IN WHICH THE UNEMPLOYMENT INSURANCE PROGRAM WAS DEVELOPED, I COMMEND TO YOU THE NEED TO ADDRESS THESE SERIOUS BURDENS ON STATES WHICH HAVE ACTED TO STRENGTHEN THEIR STATE PROGRAM AND WHO ARE SUFFERING MORE THAN OTHER STATES FROM THE EFFECTS OF THE RECESSION.

Senator HEINZ. Senator Corbin, thank you very much. You were here, I think, when Governor Thompson presented his testimony to the committee. He has made a proposal on behalf of the National Governors Association which he indicated was unanimously adopted by them for dealing with the State debt issue. Do you support what the Governors have recommended? If not, in what particulars would you differ?

Mr. CORBIN. Senator Heinz, I was not here when the Governor made his remarks. I was here at the close, during some of the questions, where I received some of that information.

Senator HEINZ. Are you familiar with the outline of his proposals?

Mr. CORBIN. I am somewhat familiar with his recommendations, and in general those are recommendations we could certainly support. We have made strides, first of all, in increasing taxes on our employer community, reducing our benefits, which would meet many of the guidelines. In spite of that, the questions that are being raised by an additional four criteria for the FUTA penalty cap that are being suggested now are qualifications that even we would have difficulty reaching.

I think the Governor's approach about the cap here is one we probably could reach and qualify.

Senator HEINZ. When I asked Governor Thompson about some kind of formulation, he stipulated that some kind of percentage improvement in the solvency—he mentioned some percentage figures, 30, 40, or 25, 35, 50 percent, that is a little more than you need to do—a formulation whereby within 3 years solvency would be restored. Is that possible for a State like Michigan?

Mr. CORBIN. The 30-percent figure, we think, is a realistic picture in terms of what we have been able to accomplish. We have increased our employer tax by 50 percent in this next year alone in terms of an employer tax of $350 million, an additional almost $200 million in a reduction of employee benefits, for a total of over $530 million to be added into the system of repayment in this coming fiscal year.

Senator HEINZ. The tough question that the Senate Finance Committee will be confronted with after the Senate Budget Committee and we negotiate, as I am sure we will, an amount of money to reduce the budget deficit by, is, if we provide relief from interest for 1983 and 1984, as you and Governor Thompson suggest, where are we going to find that money here in the Finance Committee?

The answer, take it out of the defense budget, is not one we can use in this committee. We will do what we think is right on the defense budget, but that will not help here. Do you have any suggestions as a fellow chairman of a finance committee that deals with these kinds of issues where we should look either to increase revenues or cut spending somewhere within the jurisdiction of this committee?

Mr. CORBIN. I certainly do not have specific recommendations at this time. I appreciate the difficulty you face in terms of a budget deficit that you are attempting to respond to, and attempting to close the gap. We are attempting that same dilemma in the State of Michigan. We have a $900 million budget deficit this year. In

terms of general fund spending, that is about one-quarter of our budget.

Senator HEINZ. My time is about to expire. I would like to ask one last question, which is, on the House side, they have extended the unemployment compensation program for Federal supplemental benefits, and in doing so for additional weeks they have reduced benefits by one-third, as I understand it. Is that correct? In the House side of this Capitol, not yours—have you followed that?

Mr. CORBIN. I am sorry, I cannot respond in specifics to what the House action has been.

Senator HEINZ. It is my understanding they reduced the unemployment compensation benefit under the supplemental program by one-third. Is that too much? Can people in your State survive, those that would qualify?

Mr. CORBIN. What is happening in our State for such long-term unemployment is that the case loads of ADCU, unemployed individuals who never thought they would seek social service assistance in any form, are at a rate of over 45,000, increasing at a rate of 4,500 a month. Benefits have been exhausted, and also, consequent to that, their asset test being eliminated.

The only means of survival for many citizens in our community are the unemployment benefits there and the potential extended benefits. All of us hope that economic recovery is around the corner, but we have been through such a long siege of recession, we cannot hope on too many things. We have to be realistic. That economic benefit of increased and sustained supplemental benefits means survival for many of our communities.

Senator HEINZ. Thank you very much.

Senator Bradley?

Senator BRADLEY. Thank you very much.

Welcome, and I would like to ask a couple of questions.

Are you familiar with the administration's proposals generally, the proposal in particular that they would allow States to use up to 2 percent of their projected current year revenues from their trust funds to finance retraining for unemployment insurance claimants?

Of course, in Michiagn we know this is a kind of superfluous question, because you do not have any money to be able to do this. But in concept, does this make any sense to you? It does not to me, just as a guide.

Mr. CORBIN. Our immediate problem, although there will be retraining funds, our immediate problem is jobs, and if we retrain someone for a job that is nonexistent, we have not assisted the immediate dilemma of that person, at least in our sector.

Senator BRADLEY. The second proposal they make is a job voucher program. Under this a worker eligible for FSE would be allowed to take his unemployment cash benefits in the form of a job voucher. Does that make any sense to you? Is it applicable at all to Michigan?

Mr. CORBIN. I am not sure that would be a great incentive to employers if there was not a job, and second, it might create a disincentive for those who have been unemployed for long periods of time to be employed.

Senator BRADLEY. I agree with your answers on both of those.

On the question of extending the amount of time a person has to work before they qualify for FSE from 20 weeks to 30 weeks, does that make any sense to you? Will that cause administrative problems for State agencies, or do you think that a 30-week period represents a stronger attachment to the work force?

Mr. CORBIN. There are many people in my community who wish they could get 20 weeks of employment a year. We have extended the requirements in our week from 14 to 18 to 20, and yet many people are unemployed for a short period of time, reemployed for a short period of time, hoping that means security for their future, to find their life being trampled on again after 5, 6, or 8 weeks. Thirty weeks seems to be rather excessive.

Senator BRADLEY. I agree with you. Now, what you have is a situation where a few States, Michigan, Ohio, Pennsylvania, Illinois, and a few other States are in very serious problems. I think what the committee is grappling with is a rationale as to how we can assist those States even more than we assist other States, and what would be the national rationale for such an effort?

It seems to me one of the places we might look to try to find that rationale is in the basis in which we now reimburse States for AFDC and medicaid. That is, based upon tax effort, essentially, and what the fiscal status of the State is measured by, per capita income. We do not measure things like how much income they get from energy revenues, nor, more appropriately in your circumstance, less in mine, but certainly in Senator Heinz', do we measure fiscal capacity in terms of the effect of a prolonged recession on the ability of a State government to raise revenues and keep a sound fiscal house in order?

So, the thought occurs to me that maybe when we consider these unemployment issues, we might want to take into consideration the effect of a prolonged recession on a State, and since it is unlikely, although possible, that we will increase the Federal match for certain States that have high unemployment, it is at least possible that because of the effect of that prolonged recession on States, we could have a rationale for increasing at least the forgiveness or the leniency or the reimbursement for unemployment costs, and certainly the effect of the debt pileup in the States.

Does that make any sense to you?

Mr. CORBIN. It makes very much sense, Senator Bradley, in the sense that we are at a 50-percent reimbursement rate. If we, for instance, were at a 60-percent reimbursement rate, we probably would be able to pay $250 million of our unemployment debt.

Senator BRADLEY. I am sure Senator Heinz of Pennsylvania would have an equally startling number, because as I look at the number in Pennsylvania, you have 54-percent reimbursement. Now, the issue is, if Michigan had the national reimbursement rate essentially, you would be able to repay how much?

Mr. CORBIN. If it were at 60, our calculation would be approximately $250 million.

Senator BRADLEY. So if on issues like AFDC and medicaid, you were getting from the Federal Government what the average is for the country, your State budget would free up $250 million with which you could repay your debt.

Mr. CORBIN. Absolutely.

Senator BRADLEY. I think that is a very important point, and one that we will want to consider in the course of these deliberations as perhaps providing a rationale for some greater assistance to hard pressed States in the country.

Mr. CORBIN. Thank you.

Senator BRADLEY. Thank you very much.

Senator HEINZ. Senator Corbin, one last question. You mentioned that your interest payment on the State debt amounted to something like $2.50 a minute. Is that correct?

Mr. CORBIN. A second.

Senator HEINZ. For those of us who do not have our microchip imported Japanese calculators, could you describe what the impact of that 10-percent interest is in your State beyond that rather dramatic number?

Mr. CORBIN. Approximately $75 million a year.

Senator HEINZ. To what extent, what have you had to do or give up in order to finance that kind of payment?

Mr. CORBIN. The decisions of the legislature joined by both the preceding Governor and the Governor-elect last year is to refinance the unemployment compensation system. That will mean over a period of 4 years an increase in employer taxes of close to $2.5 billion, on top of the base of $2.7 billion paid in the last 4 years by employers.

Senator HEINZ. That is a dramatic and fearsome increase.

Mr. CORBIN. It certainly is. Coupled with that, there has been a reduction in benefits, a freezing of benefits and stringent eligibility requirements at a cost of approximately $1.1 billion.

Senator HEINZ. On what kind of base?

Mr. CORBIN. Over a period of 4 years, the employer base will be considered, so taking those two together to repay our Federal debt of close to $4 billion, we think is sufficient to do that. The continued interest, though, that I had expressed before is money that could be reinvested by our employer community in our own State, and it is that capital investment that we have a very serious concern for, that capital investment loss that we are very seriously concerned about in Michigan. It is a catch-22. We are paying off our debt in a timely fashion, but in so doing, we deny ourselves the opportunity to expand in the future to solve our unemployment problem.

Senator HEINZ. Senator Corbin, thank you very much. We appreciate your being here.

Mr. CORBIN. Thank you.

Senator HEINZ. Our next witness is Hon. Rudy Boschwitz, Senator from the State of Minnesota. Senator Boschwitz.

Senator Boschwitz, we are delighted to have you before the committee. Please proceed.

STATEMENT OF HON. RUDY BOSCHWITZ, A U.S. SENATOR FROM THE STATE OF MINNESOTA

Senator BOSCHWITZ. Thank you very much, Mr. Chairman.

I testified before your committee very recently on another matter, and I am pleased to be back again today to talk about unemployment compensation. I am particularly pleased because we

do have some structural unemployment in the northeastern part of our State. As business returns, that unemployment may well not go away. It is with that in mind that I am here today particularly addressing the problems of the so-called Iron Range of Minnesota.

As you know, Mr. Chairman, I introduced legislation in January to extend the safety net for those who have been hardest hit by the recession, the unemployed. My bill would extend the unemployment benefits, the so-called Federal supplemental compensation, for an additional 6 months. This would push the ending date of FSC back to September 30, 1983. Without this extension, as you well know, the program would have ended on March 31.

The need for this extension was vividly brought home to me in January when I went up to the Iron Range of Minnesota with the Governor of our State, and we held a town meeting together. The Iron Range is a part of northeastern Minnesota that has felt the pressures of our current economy as much as any other area in the country. With its tremendous dependence on the depressed steel industry, the range is experiencing 20-percent unemployment, and pockets of the area are experiencing unemployment two to three times that.

Some people thought that a Republican Senator going up to the Iron Range, as it is called, in such an atmosphere was a crazy thing to do, but those critics were quite surprised. More than 400 people packed a tiny theater in Hibbing, Minn., at the community college up there, and some of those folks very rightfully did a good deal of complaining, but more than that, I felt the sense of urgency in those attending, that they truly realized the severity of their problem, and they were looking to the Government for help, and really, they do not have elsewhere to look.

We participated in a valuable, constructive dialog. We talked about the problems of unemployment, what could be done in the long term, and what should be done in the short term to assist the jobless. They really do not have somewhere else to look. People are not quite as mobile, Mr. Chairman, as they used to be. You cannot just sell your house and move elsewhere to get a job. You have to replace that house with one costing probably two to three times that amount at an interest rate much higher than most of the mortgages people had.

So, as a result, there is structural unemployment. People are unable to move and be as mobile and seek new jobs when they live on the Iron Range of Minnesota.

One of the ideas that was suggested by a fellow by the name of Stan Daniels, a miner and union leader from Hibbing, was that the FSC be extended to help people such as those on the Iron Range who would desperately like to work but truly cannot. There simply are not any jobs.

I was happy to introduce that legislation when I returned to Washington. I went to the White House, as a matter of fact, to discuss it with the President, who was also receptive. I was pleased to see that the administration included this extension in its new package. I believe that package deserves serious attention.

But I am here to talk about more than just an extension of the FSC. My State of Minnesota had an unemployment rate of 10.4 percent in January, exactly what the national rate would be. But

while that national rate has fallen from 10.8 percent in December, Minnesota's rate has gone from 8.6 percent in November to 9.3 in December, to 10.4 in January. Our unemployment is not decreasing. Our unemployment is still rising.

As of January 31, 220,000 Minnesotans are unemployed, but only 125,000 are receiving unemployment benefits. Another 36,000 will fall off the rolls in the next 3 to 4 weeks, so that the extension of the FSC that we passed in December will expire for them. Every week, an additional 1,000 or 2,000 more exhaust their benefits.

Mr. Chairman, the Iron Range mines taconite, a low grade of ore processed into high grade pellets and then shipped to eastern steel mills, many of them, Mr. Chairman, in your State, as a matter of fact. When shipments are down, the port of Duluth suffers as well, as ore and grain are the major commodities handled there. United States Steel, of your State, Mr. Chairman, owns the largest mine in the range, and they closed it June 6, 1982. That alone put 3,750 people out of work. They have reopened it to some degree, but still thousands of people from that one plant are out of work.

Taconite pellet production dropped by over 40 percent from 1981 to 1982, falling from 49 million tons in 1981 to 29 million tons in 1982.

There is only limited relief in sight, as some sectors of the economy begin to pick up. Steel has not, as you well know. However, the problems of the Iron Range go way beyond the recession. Mr. Chairman, the term "structural unemployment" is often used when economists and others talk about unemployment, but we rarely hear about it when Congress puts together programs for the unemployed.

Here today we will hear suggestions and recommendations from many people on how to solve the unemployment problem or how to help the unemployed. I believe that before we try to rewrite the Federal Government's role and responsibility toward the unemployed, we must first clearly differentiate between recession-related unemployment and structural unemployment.

Recession-related unemployment comes about because during a business downturn less goods are produced, less goods are shipped, stored, or purchased, and this means fewer people are needed in the whole stream of economic employment. So during a recession, unemployment normally will increase, but as soon as the economy picks up, those jobs will reappear. Normally, unemployment, however, is a lag type indicator. This is not the case with structural unemployment.

Here, jobs are lost because of social or technological factors basically unrelated to overall economic strength or weakness. These people will not be aided by a jobs bill or a make work project except in the very short term.

The Iron Range in Minnesota is a classic example. Taconite pellets are used to make steel, and when the steel industry is in bad shape, the taconite business is just as bad, if not worse. Close to half the people in the Iron Range work in the mines or businesses associated with them, so that when mines shut down, the towns suffer greatly.

Today, the steel industry is in the midst of a vicious structural shakeup, with which you are very familiar, in which demands for

capital to modernize and boost productivity cannot be met because of aging plants, high labor costs, and lower cost imports which eat away at any possible profits.

The GAO reported in a 1981 study that 25 percent of the industry's plants are too old to compete with foreign plants, and that the domestic production capacity is shrinking at such a rate that there may be a problem in meeting domestic needs.

Employment in the steel industry has declined by 46 percent since 1979. The Office of Technology Assessments estimates the industry will need an increase in capital spending and modernization by approximately $3 billion a year for the rest of this decade. Capital investment expenditures in 1981 were only $3.45 billion, up slightly from the $3.4 billion in 1980.

The long-term debt in the industry is now more than 50 percent of stockholders' equity, and as a result, investment projects are being either cancelled or deferred. Meanwhile, the automotive industry is shifting to smaller, lighter cars in response to Government mandated gas mileage requirements and consumer preference. These shifts increase the amount of aluminum and plastic in each car and decrease the amount of steel. The airline industry, too, is shifting to lighter weight aluminum and away from steel.

Foreign competition is also increasing, not just from heavily government subsidized European steel companies; in fact, throughout the world they are catching up with us. Why? Because of the high industrial wage rate in the United States, giving the U.S. labor costs of approximately $180 a ton shipped versus $143 for Germany and $111 in Japan.

Labor's productivity in this country has been growing slower than any other manufacturing industry, and the aging, outdated, inefficient plants, of course, add to the problem.

Unfortunately, Mr. Chairman, while the steel industry tries to sort itself out, people dependent upon the industry have no work. Many of them have spent all their working lives in the mines or the mining industry, and cannot pull up and move on to another trade or job at this point in their lives.

Government programs have not addressed this type of unemployment. We have only provided short-term help for those who have lost their jobs because of economic downturns. Rest assured, I am not advocating an abandonment of those programs. I support them. They are our responsibility. Instead, I ask my colleagues and others here today to take a good look at the massive problem of structural unemployment as well.

Should the Government aid the steel industry and other stagnating industries any way we can? Can we raise tariff barriers, Government loans? Should we look at new technologies, such as the so-called minimills? Should we concentrate on retraining programs? Should we use tax incentives, like the enterprise zone plan that Senator Chafee and yourself, Senator Heinz, and I are so much involved in? Should we give tax breaks to employers who hire the long-term unemployed? Should we create regional incentives for hard hit areas in that plan that I particularly like? Or is this not a proper role for Government?

Those are the types of questions we should be asking when we talk about unemployment. I hope this committee, the administra-

tion, and the Committee on Labor and Human Resources will work with me and work with each other to come up with a fresh approach, something more than simply extending unemployment benefits and countercyclical jobs bills.

The President has made a good first step, but we must carry on from there.

I thank the committee for this opportunity to talk about structural unemployment that particularly concerns the northeastern part of my State, where people simply are not, even when the recession recovers, where people will be hard pressed to regain the initiative in their own lives.

Thank you, Mr. Chairman.

[The prepared statement of Senator Boschwitz follows:]

STATEMENT BY SENATOR RUDY BOSCHWITZ
BEFORE THE SENATE FINANCE COMITTEE
MARCH 3, 1983

MR. CHAIRMAN, I APPRECIATE VERY MUCH THIS OPPORTUNITY TO COME BEFORE THIS COMMITTEE AND DISCUSS MY THOUGHTS ON THE FEDERAL GOVERNMENT'S RESPONSIBILITIES TOWARD THE UNEMPLOYED.

AS YOU KNOW, I INTRODUCED LEGISLATION IN JANUARY TO EXTEND THE SAFETY NET FOR THOSE WHO HAVE BEEN HARDEST HIT BY THE RECESSION -- THE UNEMPLOYED. MY BILL WILL EXTEND THE PROGRAM OF EXTRA UNEMPLOYMENT BENEFITS, THE SO-CALLED FEDERAL SUPPLEMENTAL COMPENSATION (FSC) PROGRAM FOR AN ADDITIONAL SIX MONTHS. THIS WOULD PUSH THE ENDING DATE OF THE FSC PROGRAM BACK TO SEPTEMBER 30, 1983. WITHOUT THIS EXTENSION, THE PROGRAM WILL EXPIRE ON MARCH 31, 1983.

THE NEED FOR THIS EXTENSION WAS VIVIDLY BROUGHT HOME TO ME IN JANUARY WHEN I WENT UP TO MINNESOTA'S IRON RANGE WITH GOVERNOR RUDY PERPICH FOR A TOWN MEETING ON JOBS.

THE IRON RANGE IS AN AREA OF NORTHEASTERN MINNESOTA THAT HAS FELT THE PRESSURES OF OUR CURRENT ECONOMY AS MUCH AS ANY AREA IN THE COUNTRY. WITH ITS TREMENDOUS DEPENDENCE ON THE DEPRESSED STEEL INDUSTRY, THE RANGE IS EXPERIENCING 20 PERCENT UNEMPLOYMENT, WITH POCKETS OF THE AREA EXPERIENCING

TWO OR THREE TIMES THAT MUCH.

SOME PEOPLE THOUGHT THAT A REPUBLICAN SENATOR WOULD HAVE TO BE CRAZY TO GO UP THERE IN SUCH AN ATMOSPHERE -- AND THEY TOLD ME SO. BUT THOSE CRITICS WERE QUITE SURPRISED. MORE THAN 400 PEOPLE PACKED INTO THE TINY THEATRE OF HIBBING COMMUNITY COLLEGE UP THERE. AND SOME OF THEM, RIGHTFULLY, DID A LITTLE COMPLAINING.

BUT MORE THAN THAT I FELT A SENSE OF URGENCY IN THOSE ATTENDING, THAT THEY TRULY REALIZED THE SEVERITY OF THEIR PROBLEM AND THAT THEY WERE LOOKING TO THE GOVERNMENT FOR HELP. WE PARTICIPATED IN A VALUABLE, CONSTRUCTIVE DIALOGUE. WE TALKED ABOUT THE PROBLEMS OF UNEMPLOYMENT, WHAT COULD BE DONE IN THE LONG-TERM, BUT ALSO WHAT SHOULD BE DONE IN THE SHORT-TERM TO ASSIST THE JOBLESS.

ONE OF THE IDEAS WAS SUGGESTED BY STAN DANIELS, A MINER AND UNION LEADER FROM HIBBING. HE SUGGESTED THAT FSC BE EXTENDED TO HELP PEOPLE, SUCH AS THOSE ON THE IRON RANGE, WHO WOULD DESPERATELY LIKE TO WORK, BUT CAN'T. THERE SIMPLY AREN'T ANY JOBS.

I WAS HAPPY TO INTRODUCE THAT LEGISLATION WHEN I RETURNED TO WASHINGTON. I WENT TO THE WHITE HOUSE TO DISCUSS IT WITH THE PRESIDENT, WHO WAS VERY RECEPTIVE -- I WAS PLEASED TO SEE THE ADMINISTRATION INCLUDE THIS EXTENSION IN ITS PACKAGE. I BELIEVE THAT PACKAGE DESERVES SERIOUS ATTENTION.

BUT I'M HERE TO TALK ABOUT MORE THAN JUST THE EXTENSION OF THE FSC.

MY STATE OF MINNESOTA HAD AN UNEMPLOYMENT RATE OF 10.4 PERCENT IN JANUARY -- EXACTLY THE NATIONAL RATE. BUT WHILE THE NATIONAL RATE HAD FALLEN FROM 10.8 PERCENT IN DECEMBER, MINNESOTA'S RATE HAS GONE FROM 8.6 PERCENT IN NOVEMBER TO 9.3 PERCENT IN DECEMBER TO 10.4 PERCENT IN JANUARY. OUR UNEMPLOYMENT IS STILL RISING.

AS OF JANUARY 31, 1983, 220,000 MINNESOTANS ARE UNEMPLOYED -- BUT ONLY 125,000 ARE RECEIVING UNEMPLOYMENT BENEFITS. ANOTHER 36,000 WILL FALL OFF THE ROLLS IN THE NEXT 3 WEEKS AS THE 4 WEEK FSC EXTENSION WE PASSED IN DECEMBER EXPIRES FOR THEM. EVERY WEEK AN ADDITIONAL ONE TO TWO THOUSAND MORE EXHAUST THEIR BENEFITS.

UNFORTUNATELY, MR. CHAIRMAN, THESE NUMBERS DON'T TELL THE WHOLE STORY. NORTHEASTERN MINNESOTA (THE IRON RANGE) HAS AN UNEMPLOYMENT RATE ABOUT 20 PERCENT. MANY POCKETS HAVE UNEMPLOYMENT RATES DOUBLE AND TRIPLE THAT BECAUSE THE MINES ARE SHUT DOWN.

THE IRON RANGE MINES TACONITE, A LOW-GRADE ORE THAT IS PROCESSED INTO HIGH-GRADE PELLETS AND THEN SHIPPED TO THE EASTERN STEEL MILLS. WHEN SHIPMENTS ARE DOWN, THE PORT OF DULUTH SUFFERS TOO -- AS ORE AND GRAIN ARE THE MAJOR COMMODITIES HANDLED THERE. U.S. STEEL OWNS THE LARGEST MINE ON THE RANGE

AND THEY CLOSED IT JUNE 6, 1982. THIS ALONE PUT 3,750 PEOPLE OUT OF WORK.

TACONITE PELLET PRODUCTION DROPPED BY OVER 40 PERCENT FROM 1981 TO 1982, FALLING FROM 49 MILLION TONS IN 1981 TO 29 MILLION TONS IN 1982. ONLY LIMITED RELIEF IS IN SIGHT, AS SOME SECTORS OF THE ECONOMY BEGIN TO PICK UP.

HOWEVER, THE PROBLEMS OF THE IRON RANGE GO WAY BEYOND THE RECESSION.

MR. CHAIRMAN, THE TERM STRUCTURAL UNEMPLOYMENT IS OFTEN USED WHEN ECONOMISTS AND OTHERS TALK ABOUT UNEMPLOYMENT, BUT WE RARELY HEAR ABOUT IT WHEN CONGRESS PUTS TOGETHER PROGRAMS FOR THE UNEMPLOYED.

HERE TODAY WE WILL HEAR SUGGESTIONS AND RECOMMENDATIONS FROM MANY PEOPLE ON HOW TO SOLVE THE UNEMPLOYMENT PROBLEM OR HOW TO HELP THE UNEMPLOYED.

I BELIEVE THAT BEFORE WE TRY TO REWRITE THE FEDERAL GOVERNMENT'S ROLE AND RESPONSIBILITIES TOWARDS THE UNEMPLOYED, WE MUST FIRST CLEARLY DIFFERENTIATE BETWEEN RECESSION-RELATED UNEMPLOYMENT, AND STRUCTURAL UNEMPLOYMENT.

RECESSION-RELATED UNEMPLOYMENT COMES ABOUT BECAUSE DURING A BUSINESS DOWNTURN, LESS GOODS ARE PRODUCED, LESS GOODS ARE SHIPPED, LESS GOODS ARE STORED, AND LESS GOODS ARE PURCHASED.

THIS MEANS FEWER PEOPLE ARE NEEDED TO HANDLE THESE JOBS. SO, DURING A RECESSION, UNEMPLOYMENT NORMALLY WILL INCREASE. BUT AS SOON AS THE ECONOMY PICKS UP (AS IT IS SHOWING SIGNS OF DOING NOW) THESE JOBS WILL REAPPEAR.

THIS IS NOT THE CASE WITH STRUCTURAL UNEMPLOYMENT. HERE, JOBS ARE LOST BECAUSE OF SOCIAL OR TECHNOLOGICAL FACTORS -- BASICALLY UNRELATED TO OVERALL ECONOMIC STRENGTH OR WEAKNESS. THESE PEOPLE WILL NOT BE AIDED BY "JOBS BILLS" OR MAKE-WORK PROJECTS EXCEPT IN THE VERY SHORT TERM.

THE IRON RANGE IN MINNESOTA IS A CLASSIC EXAMPLE. TACONITE PELLETS ARE USED TO MAKE STEEL, AND WHEN THE STEEL INDUSTRY IS IN BAD SHAPE, THE TACONITE BUSINESS IS JUST AS BAD, IF NOT WORSE. CLOSE TO HALF THE PEOPLE ON THE RANGE WORK IN THE MINES, SO WHEN MINES SHUT DOWN, THE TOWNS SUFFER, TOO.

TODAY THE STEEL INDUSTRY IS IN THE MIDST OF A VICIOUS STRUCTURAL SHAKE-UP, IN WHICH DEMANDS FOR CAPITAL TO MODERNIZE AND BOOST PRODUCTIVITY CANNOT BE MET BECAUSE OF AGING PLANTS, HIGH LABOR COSTS, AND LOWER COST IMPORTS, WHICH EAT AWAY AT ANY POSSIBLE PROFITS.

THE GAO REPORTED IN A 1981 STUDY THAT 25 PERCENT OF THE INDUSTRY'S PLANTS ARE TOO OLD TO COMPETE WITH FOREIGN PLANTS, AND THAT DOMESTIC PRODUCTION CAPACITY IS SHRINKING AT SUCH A RATE THAT THERE MAY BE PROBLEMS IN MEETING DOMESTIC NEEDS.

EMPLOYMENT IN THE STEEL INDUSTRY HAS DECLINED BY 46 PERCENT SINCE 1979, AND 150,000 STEEL JOBS HAVE BEEN LOST, PLUS AN ADDITIONAL 500,000 IN SPIN-OFF JOBS.

THE OFFICE OF TECHNOLOGY ASSESSMENT ESTIMATES THAT THE INDUSTRY WILL NEED TO INCREASE CAPITAL SPENDING ON MODERNIZATION BY APPROXIMATELY $3 BILLION A YEAR FOR THE REST OF THIS DECADE. CAPITAL INVESTMENT EXPENDITURES IN 1981 WERE ONLY $3.45 BILLION, UP SLIGHTLY FROM THE $3.39 BILLION IN 1980. BUT THE LONG-TERM DEBT WITHIN THE INDUSTRY IS NOW MORE THAN 50 PERCENT OF TOTAL STOCKHOLDERS' EQUITY AND HALF THE INDUSTRY'S CAPITAL INVESTMENT PROJECTS HAVE BEEN CANCELLED OR DEFERRED.

MEANWHILE, THE AUTOMOTIVE INDUSTRY IS SHIFTING TO SMALLER AND LIGHTER CARS IN RESPONSE TO GOVERNMENT-MANDATED GAS MILEAGE REQUIREMENTS AND CONSUMER PREFERENCE. THESE SHIFTS INCREASE THE AMOUNT OF ALUMINUM AND PLASTIC IN EACH CAR AND DECREASE THE AMOUNT OF STEEL. THE AIRLINE INDUSTRY, TOO, IS SHIFTING TO THE LIGHTER WEIGHT ALUMINUM AND AWAY FROM STEEL.

FOREIGN COMPETITION IS ALSO INCREASING AND NOT JUST FROM HEAVILY GOVERNMENT SUBSIDIZED EUROPEAN STEEL COMPANIES. IN FACT, ALTHOUGH THE WORLD'S DEMAND FOR STEEL HAS DOUBLED IN THE PAST 20 YEARS -- U.S. PRODUCTION HAS INCREASED BY ONLY 20 PERCENT. THIS MEANS OUR MARKET SHARE OF THE WORLD MARKET HAS BEEN DECLINING FOR SOME TIME.

WHY?

1. THE HIGHEST INDUSTRIAL WAGES ARE IN THE U.S. (60 PERCENT GREATER THAN THE AVERAGE INDUSTRIAL WAGE) GIVING THE U.S. LABOR COSTS OF APPROXIMATELY $180/TON OF SHIPPED STEEL VS. $143/TON FROM GERMANY AND $111/TON IN JAPAN;

2. LABOR PRODUCTIVITY HAS BEEN GROWING SLOWER THAN ANY OTHER MANUFACTURING INDUSTRY (EXCEPT SOME OTHER PRIMARY METALS);

3. AGING, OUTDATED, INEFFICIENT PLANTS.

UNFORTUNATELY, MR. CHAIRMAN, WHILE THE STEEL INDUSTRY TRYS TO SORT ITSELF OUT, PEOPLE DEPENDENT ON THE INDUSTRY HAVE NO WORK. MANY OF THEM HAVE SPENT ALL THEIR WORKING LIVES IN THE MINES, OR IN THE MINING BUSINESS, AND CANNOT PULL UP AND MOVE ON TO ANOTHER TRADE OR JOB AT THIS POINT IN THEIR LIFE.

GOVERNMENT PROGRAMS HAVE NOT ADDRESSED THIS TYPE OF UNEMPLOYMENT, WE HAVE ONLY PROVIDED SHORT-TERM HELP FOR THOSE WHO HAVE LOST THEIR JOBS BECAUSE OF ECONOMIC DOWNTURNS.

REST ASSURED, I AM NOT ADVOCATING AN ABANDONMENT OF THOSE PROGRAM, I SUPPORT THEM. THEY ARE OUR RESPONSIBILITY. INSTEAD, I AM ASKING MY COLLEAGUES AND OTHER HERE TODAY TO

TAKE A GOOD LOOK AT THE MASSIVE PROBLEM OF STRUCTURAL UNEMPLOYMENT AS WELL.

SHOULD THE GOVERNMENT AID THE STEEL INDUSTRY AND OTHER STAGNATING INDUSTRIES ANYWAY WE CAN? RAISE TARIFF BARRIERS? GOVERNMENT LOANS?

SHOULD WE LOOK FOR NEW TECHNOLOGIES -- SUCH AS THE SO-CALLED MINI-MILLS TO MOVE INTO AREAS NOW DEPENDENT ON THE BIG STEEL MILLS? (THE MINI-MILLS HAVE LABOR COSTS COMPETITIVE WITH THE JANPANESE, AND THEIR PROCESSING TECHNIQUE IS THREE TIMES AS ENERGY EFFICIENT AS THE BIG MILLS. CURRENTLY, THEY ACCOUNT FOR 25 PERCENT OF THE DOMESTIC STEEL PRODUCTION.)

SHOULD BE CONCENTRATE ON RETRAINING PROGRAMS? SHOULD WE USE TAX INCENTIVES -- LIKE MY ENTERPRISE ZONE PLAN -- TARGETTED TO STRUCTURALLY UNEMPLOYED AREAS IN ORDER TO BRING IN NEW BUSINESS OR INDUSTRIES?

SHOULD WE GIVE TAX BREAKS TO EMPLOYERS WHO HIRE THE LONG-TERM UNEMPLOYED?

SHOULD WE CREATE REGIONAL INCENTIVES FOR HARD HIT AREAS -- COMBINING EXTENDED UNEMPLOYMENT BENEFITS WITH RETARINING?

OR IS THERE NO PROPER ROLE FOR GOVERNMENT?

THESE ARE THE TYPE OF QUESTIONS WE SHOULD BE ASKING WHEN WE TALK ABOUT WHAT TO DO ABOUT UNEMPLOYMENT. I HOPE THIS COMMITTEE, THE ADMINISTRATION, AND THE COMMITTEE ON LABOR AND HUMAN RESOURCES WILL WORK WITH ME AND EACH OTHER TO COME UP WITH A FRESH APPROACH -- SOMETHING MORE THAN SIMPLY UNEMPLOYMENT BENEFITS AND COUNTERCYCLICAL JOBS BILLS. THE PRESIDENT HAS MADE A GOOD FIRST STEP, WE MUST CARRY ON FROM THERE.

I THANK THE COMMITTEE FOR THIS OPPORTUNITY TO PRESENT MY THOUGHTS.

Senator HEINZ. Senator Boschwitz, thank you very much for an excellent, indeed, comprehensive statement. I have no questions.

Senator Chafee?

Senator CHAFEE. Thank you, Mr. Chairman.

Thank you, Senator Boschwitz, for a very thoughtful statement. I think you have put your finger on many tremendous problems. As you point out in your remarks, there are some areas, such as the Iron Range, where even if there is a recovery, there just probably will not be the employment in those mines there once was.

It gives us a real challenge here. Thank you.

Senator BOSCHWITZ. Thank you very much, Mr. Chairman.

Thank you, Senator Chafee.

Senator HEINZ. Thank you, Mr. Boschwitz.

Our next witness is a panel consisting of Mr. Sam Dyer, Mr. Edward Kay, and Mr. Nathaniel Semple. Gentlemen, we welcome you here today. Mr. Dyer, would you please be our initial witness?

STATEMENT OF SAMUEL E. DYER, VICE PRESIDENT, TAX PLANNING AND ADMINISTRATION, FEDERATED DEPARTMENT STORES, ACCOMPANIED BY ERIC OXFELD, EMPLOYEE BENEFITS ATTORNEY, U.S. CHAMBER OF COMMERCE

Mr. DYER. Thank you, Mr. Chairman.

I am a member of the U.S. Chamber's Council on Unemployment Compensation, and I am accompanied by Mr. Eric Oxfeld, our employee benefits attorney. The U.S. Chamber's Council on Unemployment Compensation is drawn from a cross section of the business community's most knowledgeable authorities in this field. We have made intensive study of the current problems of the unemployment compensation program, and we urge you to take the following actions to restore its integrity.

One, require the States to repay unemployment compensation advances. Two, stop diversion of FUTA revenues. Three, require public and nonprofit employers to pay their full costs. Four, convert FSC from an income maintenance program to a reemployment program. Five, improve the linkage between unemployment compensation and employment and training programs. Six, refrain from unwise employment initiatives involving unemployment compensation.

The responsibility for these changes rests primarily on the shoulders of State officials. The most important steps the Federal Government can take to help the unemployment compensation system are to: one, provide a climate for economic recovery; two, remove impediments to the employment created by Federal law; and three, supplement State unemployment compensation reform efforts by making the following changes in the Federal FSC laws.

One, require State to repay unemployment compensation advances. It is imperative that Congress refrain from taking steps that will magnify the financial burdens of unemployment trust funds or discourage States from taking swift remedial action. Some officials harbor the hope that their debt resulting from these advances will be forgiven, saving their States the painful ordeal of facing up to balancing expenditures against revenues.

Employers do not expect forgiveness, nor are we asking for it. We are urging all of our members to work at the State level to help solve the financing problems. On their own initiative, a number of States, including Michigan, Louisiana, and Ohio, have recently passed major reform legislation, and other States are nearing agreement on how to proceed.

Accordingly, we urge the members of this committee to set the record straight. Forgiveness of the Federal unemployment compensation loans is not forthcoming, and States must address their own problems without further delay. Postponing the resolution at the State level will simply make the problem harder to address. Moreover, our philosophy is unchanged that interest should be charged on Federal loans, even though we recognize that the cost in many instances will be passed on to the employers of those States.

Prior to the interest requirement, it was good money management for the States to borrow, and the Federal Government automatically recovered the loaned funds through an escalating increase in the employer's FUTA rate. It was ludicrously easy for State governments to raise benefits and let the Federal Government figure out how to pay for it. Charging interest on loans attracted the attention of State officials as nothing else could.

Finally, we support the cap concept whereby a defaulting State may spread out repayment of existing debt, provided it takes steps to avoid further borrowing.

Two, stop diversion of FUTA revenues. A related financial problem involves the use of FUTA receipts for purposes other than service to claimants. Although often overlooked, one fundamental objective of the unemployment compensation program is to assist unemployment compensation claimants find new jobs before they exhaust their benefits, yet services to claimants are estimated to represent no more than one-half the Employment Service activities. If FUTA funds were not diverted to pay for nonunemployment compensation related functions, there would be more resources available to enhance placement for claimants as well as better control of benefit fraud and abuse. (Overpayments are estimated to be as high as one-third of all benefits paid.)

Symptomatic of this diversion of FUTA revenues is the blatant use of FUTA to finance the cost of administration in the FSC program, despite the specific provision in the legislation establishing the program mandating general revenue funding of FSC administration costs.

Mr. Chairman, I have just a few more minutes, if I may proceed.

Senator HEINZ. I will tell you, we are going to be here very late if people do not observe the time schedule. There are three of you there, and I must ask you to keep your testimony within the prescribed time limits.

Mr. DYER. I will try to be through within 30 seconds.

Senator HEINZ. Please keep it to the allotted time.

Mr. DYER. All right. Require the public and nonprofit employers to pay their full cost. Federal law should require exempt employers to pay the full cost of claims administration and the full cost of benefits paid to their former employers.

Four, convert the FSC from an income maintenance program to a reemployment program. FSC eligibility should be conditioned on

participation in a reemployment program providing intensive job search assistance, as well as referral to retraining for those claimants who cannot find jobs unless their skills are upgraded.

Five, improve the linkage between unemployment compensation and employment and training programs. One fundamental objective of the unemployment compensation program which has never been adequately achieved is to help claimants find new jobs. At present, efforts to teach claimants how to find new jobs on their own are regarded as experimental. Participation in extensive job search programs should be mandatory for EB and FSC eligibility.

We strongly object, however, to the diversion of revenues from the employment trust fund to pay for training itself.

Six, study of other employment initiatives involving unemployment compensation. We need a lot more information before we can pass on such proposals as came from the administration on converting FSC benefits to a wage subsidy voucher.

We strongly oppose any Federal standard requiring that States offer work sharing programs.

Senator HEINZ. Your 30 seconds is about to expire.

Mr. DYER. We strongly oppose any Federal standard directing payment of benefits to claimants who work part-time.

In conclusion, it is imperative that the Congress advise the States that advances to their unemployment compensation trust fund will not be forgiven.

Finally, Congress should provide general revenue funding for FSC administrative expenses, in accordance with the law establishing that program.

Thank you very much. I appreciate your indulgence.

[The prepared statement of Mr. Dyer follows:]

STATEMENT
on
UNEMPLOYMENT COMPENSATION ISSUES
before the
SENATE COMMITTEE ON FINANCE
for the
CHAMBER OF COMMERCE OF THE UNITED STATES
by
Samuel E. Dyer
March 3, 1983

My name is Samuel E. Dyer. I am Vice President, Tax Planning and Administration, for Federated Department Stores in Cincinnati, Ohio, and a member of the U.S. Chamber's Council on Unemployment Compensation. I am accompanied by Eric J. Oxfeld, Employee Benefits Attorney for the Chamber.

We appear today on behalf of the U.S. Chamber to urge you to take the following actions to restore the integrity of the unemployment compensation (UC) system:

1. Require States to Repay UC Advances
2. Stop Diversion of FUTA Revenues
3. Require Public and Nonprofit Employers to Pay Their Full Costs
4. Convert FSC* From an Income Maintenance Program to a Reemployment Program
5. Improve the Linkage Between UC and Employment and Training Programs
6. Refrain from Unwise Employment Initiatives Involving UC

BUSINESS SUPPORTS UNEMPLOYMENT INSURANCE

As a major spokesman for the business community, the U.S. Chamber has had a long standing interest in, concern about, and support for the UC

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*Federal Supplemental Compensation

system. Our Council on Unemployment Compensation, drawn from the business community's most knowlegeable authorities in this field, is one of the Chamber's most active policy-making bodies and has devoted considerable attention to the current solvency problems as well as employment proposals involving changes in federal UC laws.

Unemployment insurance is designed to serve the needs of involuntarily jobless workers by providing cash benefits during periods of temporary unemployment, with the cost of those benefits being treated as a cost of doing business.

A fundamental objective of an unemployment insurance program is to operate as a countercyclical balance during periods of economic recession. UC sustains the purchasing power of individuals who are out of work, cushioning the decrease in demand for goods and services and thereby preventing secondary or tertiary levels of unemployment. For these reasons, UC is beneficial to employers as well as employees.

The UC system is financed primarily by state and federal payroll taxes on employers, except for weeks of Federal Supplemental Compensation (FSC), which are properly financed from federal general revenues.

UC ISSUES THAT NEED TO BE ADDRESSED

The severe financial problems besetting the UC system have reached dimensions that threaten its viability. The chronic indebtedness of the Unemployment Trust Fund must be corrected through changes in benefits, taxes, and administrative practices.

The responsibility for these changes rests primarily on the shoulders of state officials. The most important steps the federal government can take to help the UC system are to (1) provide a climate for sustained economic recovery, (2) remove impediments to employment created by federal law, and (3) supplement state UC reform efforts by making the following changes in federal UC laws.

1. Require States to Repay UC Advances

The unprecedented bankruptcy of the Unemployment Trust Fund is a grave problem that has not drawn sufficient attention from federal and state policy makers, who seemingly are concerned only with speeding cash payments to the unemployed. Net federal advances to states that have depleted their benefit reserves reached $10.6 billion by year-end 1982 and are projected to reach nearly $17 billion by the end of this year (see Attachment 1). In addition, there are another $6.8 billion in federal advances to the Extended Unemployment Compensation Account (largely a $5.8 billion debt from the expired Federal Supplemental Benefits program). These advances must be repaid by employers through higher payroll taxes. It is imperative that Congress refrain from taking steps that will magnify the financial burdens of the Unemployment Trust Fund or discourage states from taking swift remedial action.

Some state officials harbor the hope that debt resulting from these advances will be forgiven, saving their states the painful ordeal of facing up to balancing expenditures against revenues.

Employers do not expect forgiveness, nor are we asking for it. We are urging all of our members to work at the state level to help solve the financing problems. On their own initiative, a number of states, including Michigan, Louisiana, and Ohio, have recently passed major reform legislation, and other states are nearing agreement on how to proceed.

Accordingly, we urge the members of this Committee to set the record straight. Forgiveness of federal UC loans is not forthcoming, and states must address their own problems without further delay. Postponing resolution at the state level will simply make the problem harder to address.

Moreover, our philosophy is unchanged that interest should be charged on federal loans, even though we recognize that the costs in many instances will be passed on to employers. Prior to the interest requirement, it was good money management for states to borrow, and the federal government automatically recovered the loaned funds through an escalating increase in employers' FUTA rate. It was ludicrously easy for state governments to raise

benefits and let the federal government figure out how to pay for them. As a result, some states all but ignored the insolvency of their trust accounts. Charging interest on loans attracted the attention of state officials as nothing else could, short of cutting off additional funds to states in default on repayment.

Finally, we support the "cap" concept, whereby a defaulting state may spread out repayment of existing debt, provided it takes steps to avoid further borrowing. At a minimum, a state that cannot meet existing benefit claims cannot be permitted to raise benefits unless it is willing to raise revenues or make other benefit reductions.

2. Stop Diversion of FUTA Revenues

Although often overlooked, one fundamental objective of the UC program is to assist UC claimants find new jobs before they exhaust their benefits--one of the numerous functions assigned to the U.S. Employment Service (ES). Indeed, one of the principal uses of receipts from employers under the Federal Unemployment Tax Act (FUTA) is to pay for services to UC claimants.

ES is widely criticized, however, for failure to fulfill these expectations. In fact, only a small proportion of claimants ever find jobs through ES. A major factor contributing to the inattention paid to UC claimants is the lack of sufficient revenues caused by the failure of the federal government to pay for the non-UC-related functions of ES. In fact, 97% of ES costs are financed from FUTA revenues, even though services to claimants are estimated to represent no more than half of ES activities. Total FUTA grants for ES in fiscal year 1983 are projected to be $778 million, and the 1984 budget calls for $832 million.

If FUTA funds were not diverted to pay for non-UC-related functions, there would be more resources available to enhance placement services for claimants, as well as better controls on benefits fraud and abuse (overpayments are thought to be as high as one-third of all benefits). Moreover, there would have been no need for the FUTA increase levied last year as part of the Tax Equity and Fiscal Responsibility Act (TEFRA). The added

FUTA collections as a result of payroll tax increases required by TEFRA are estimated to amount to nearly $3 billion from 1983-85--an added impediment to employment at the worst possible time.

Symptomatic of this diversion of FUTA revenues is the blatant use of FUTA to finance the costs of administering the FSC program. This action is contrary to the specific provision, in the legislation establishing the program, mandating general revenue funding of FSC administration costs.

With limited FUTA revenues available for benefit payment controls and placement services for the unemployed, it is shocking to discover that a major part of FUTA revenues are spent for purposes other than services to UC claimants.

The following is a brief listing of FUTA-funded ES functions that do not aid UC claimants:

- Labor exchange for all job-ready applicants (including those who are presently working or who never qualified for unemployment compensation).

- Administration of special unemployment benefit programs
  1. Trade Adjustment Assistance
  2. Disaster Unemployment Assistance
  3. Other special employee protection programs

- Veterans' employment programs
  1. Disabled Veterans Outreach Program
  2. Special emphasis on employment of veterans
  3. Counseling, training, and placement of veterans on special basis

- Agricultural labor programs
  1. Services for migrant and seasonal farmworkers
  2. Farm crewleader program
  3. Consolidated Farm and Rural Development Program

- Labor certification
  1. Alien labor certification
  2. Federal contractor listing

- Other special employment emphasis
  1. Youth
  2. Women
  3. Handicapped
  4. Ex-offenders

We are not advocating that these functions be abolished--merely that some other revenue source be found to pay for them, allowing FUTA revenues to be restored to their intended purposes. Lack of adequate funds for UC administration is a critical problem now, when claims volume is at an all-time high in many states. Diversion of these funds from their basic purpose is a poor choice of priorities.

3. Require Public and Nonprofit Employers to Pay Their Full Costs

At present, federal law requires states to cover employees of state and local government agencies and nonprofit employers. These employers--and the federal government--are exempt from FUTA and make no contribution toward administrative expenses. Moreover, in many cases, they do not reimburse even the full cost of benefits paid to claimants based on services performed for them. As a result, the burden is shifted to private employers, who must pay higher payroll taxes to meet these so-called "socialized costs." An excellent example is the failure to reimburse for the half of extended benefits that is FUTA-funded. Federal law should require that reimbursable employers pay the full cost of benefits attributable to service performed for them. Federal law also should require employers who are exempt from FUTA to make an equitable contribution toward the cost of claims administration.

4. Convert FSC From an Income Maintenance Program to a Reemployment Program

There are few examples better than FSC to illustrate Congress' reluctance to address the problems of the long-term unemployed in an effective

way. Today FSC provides 8, 10, 12, 13, 14, or 16 weeks of benefits to claimants who have exhausted benefits under the regular and extended benefits (EB) programs; the maximum duration fluctuates with the state insured unemployment rate (IUR), except that claimants in any state that was triggered on EB before June 1, 1982, automatically get extra weeks regardless of the unemployment rate.

This confusing hodgepodge of maximum durations requires a road map and compass to keep straight--see Table on FSC Trigger Status. Moreover, 8 weeks of FSC are payable even in 4 states whose IUR is below 3%--hardly an "emergency" justifying an extension of duration. Another 8 states and the District of Columbia have relatively low IURs, between 3% and 4%--yet some of them qualify for 8 weeks, some for 12 weeks, and 1 state for 14 weeks. Delaware, with a 3.67% IUR, qualifies for 14 weeks of FSC, yet North Dakota, with a higher IUR of 4.25%, qualifies for 10 weeks. This schedule does not make sense.

What seems to have been overlooked in the push to help the unemployed is any semblance of need justifying this extension and the tax on UC benefits levied to pay for it. In many cases, UC benefits combined with other sources of public aid are more than the claimant's take-home pay while employed. For example, in Florida a claimant earning the state's average wage may actually come out ahead on UC benefits, food stamps, and other assistance (see Attachment 2). It is not hard to understand why such claimants make little effort to find employment. Extension of duration beyond the 6 months already provided under state law may merely encourage claimants to delay any serious work search, inflating the unemployment rate and adding to the federal budget deficit.

A continued FSC program is justifiable only if it is converted to a reemployment assistance program for workers with established work histories and who otherwise cannot help themselves. Paying 55 weeks of benefits to a claimant who worked only 20 weeks is a waste of scarce resources; 30 weeks of work should be the minimum requirement for FSC.

FSC Trigger Status
as of January 29, 1983

State/Total	16 Wks # 14	14 Wks # 23	12 Wks # 1	10 Wks # 8	8 Wks # 6	Effective Date
ALABAMA	X					B 16 WEEK 01/16/83
ALASKA	X					B 16 WEEK 01/09/83
ARIZONA		X				B 14 WEEK 01/09/83
ARKANSAS	X					B 16 WEEK 01/16/83
CALIFORNIA		X				B 14 WEEK 01/09/83
COLORADO				X		B 10 WEEK 01/23/83
CONNECTICUT				X		B 10 WEEK 01/23/83
DELAWARE		X				B 14 WEEK 01/09/83
DIST. OF COLUMBIA				X		B 10 WEEK 01/09/83
FLORIDA					X	B 8 WEEK 01/09/83
GEORGIA				X		B 10 WEEK 01/23/83
HAWAII				X		B 10 WEEK 01/09/83
IDAHO	X					B 16 WEEK 01/09/83
ILLINOIS	X					B 16 WEEK 01/30/83
INDIANA		X				B 14 WEEK 01/09/83
IOWA		X				B 14 WEEK 01/09/83
KANSAS		X				B 14 WEEK 01/09/83
KENTUCKY	X					B 16 WEEK 01/23/83
LOUISIANA		X				B 14 WEEK 01/09/83
MAINE		X				B 14 WEEK 01/09/83
MARYLAND		X				B 14 WEEK 01/09/83
MASSACHUSETTS		X				B 14 WEEK 01/09/83
MICHIGAN	X					B 16 WEEK 01/09/83
MINNESOTA		X				B 14 WEEK 01/09/83
MISSISSIPPI	X					B 16 WEEK 01/16/83
MISSOURI		X				B 14 WEEK 01/09/83
MONTANA		X				B 14 WEEK 01/09/83
NEBRASKA					X	B 8 WEEK 01/09/83
NEVADA		X				B 14 WEEK 01/09/83
NEW HAMPSHIRE					X	B 8 WEEK 01/09/83
NEW JERSEY		X				B 14 WEEK 01/09/83
NEW MEXICO		X				B 14 WEEK 01/09/83
NEW YORK				X		B 10 WEEK 01/09/83
NORTH CAROLINA		X				B 14 WEEK 01/09/83
NORTH DAKOTA				X		B 10 WEEK 01/30/83
OHIO	X					B 16 WEEK 01/16/83
OKLAHOMA				X		B 10 WEEK 01/09/83
OREGON	X					B 16 WEEK 01/09/83
PENNSYLVANIA	X					B 16 WEEK 01/09/83
PUERTO RICO	13 Wks FSC due to 20 Wk Reg. duration					B 13 WEEK 01/09/83
RHODE ISLAND		X				B 14 WEEK 01/09/83
SOUTH CAROLINA		X				B 14 WEEK 01/09/83
SOUTH DAKOTA					X	B 8 WEEK 01/09/83
TENNESSEE		X				B 14 WEEK 01/09/83
TEXAS					X	B 8 WEEK 01/09/83
UTAH		X				B 14 WEEK 01/09/83
VERMONT		X				B 14 WEEK 01/09/83
VIRGINIA					X	B 8 WEEK 01/09/83
VIRGIN ISLANDS		X				B 14 WEEK 01/09/83
WASHINGTON	X					B 16 WEEK 01/09/83
WEST VIRGINIA	X					B 16 WEEK 01/09/83
WISCONSIN	X					B 16 WEEK 01/23/83
WYOMING			X			B 12 WEEK 01/16/83

* Indicates change from Prior Notice

U.S. Department of Labor, ETA, UIS
Division of Actuarial Services
February 14, 1983

TRIGGER NOTICE NO. 83-5

STATE EXTENDED BENEFIT INDICATORS UNDER P.L. 94-566
AS OF January 29, 1983

Number "On": 23		EXTENDED BENEFIT INDICATORS 13-Week IUR	Percent of Prior 2 Years	STATUS OF EXTENDED BENEFIT Periods Beginning Date (B) Ending Date (E)
ON	ALABAMA	6.41	131	B 10-31-82
ON	ALASKA	8.08	98	B 1-23-83
	ARIZONA	4.35	167	E 10-23-82
ON *	ARKANSAS	6.76	122	B 10-3-82
ON	CALIFORNIA	5.60	133	B 1-23-83
	COLORADO	3.87	142	E 1-24-81
	CONNECTICUT	3.87	129	E 1-24-81
*	DELAWARE	3.67	83	E 7-17-82
	DIST. OF COLUMBIA	3.86	124	E 1-24-81
*	FLORIDA	2.56	137	E 1-24-81
*	GEORGIA	3.63	118	E 1-24-81
	HAWAII	3.51	110	E 1-24-81
ON	IDAHO	7.75	122	B 10-18-81
ON	ILLINOIS	6.28	133	B 3-7-82
ON	INDIANA	5.62	135	B 1-16-83
*	IOWA	4.97	133	E 10-2-82
	KANSAS	4.37	157	E 11-6-82
ON *	KENTUCKY	6.76	122	B 12-5-82
ON	LOUISIANA	5.64	188	B 1-23-83
	MAINE	5.21	103	E 7-3-82
	MARYLAND	4.62	122	E 7-31-82
*	MASSACHUSETTS	4.38	115	E 6-26-82
ON	MICHIGAN	7.89	109	B 2-28-82
	MINNESOTA	4.59	131	E 7-10-82
ON	MISSISSIPPI	6.68	140	B 1-17-82
	MISSOURI	4.80	111	E 6-19-82
ON	MONTANA	5.71	116	B 1-23-83
	NEBRASKA	3.34	139	E 1-24-81
ON *	NEVADA	5.35	131	B 1-23-83
*	NEW HAMPSHIRE	3.23	132	E 1-24-81
	NEW JERSEY	4.79	100	E 6-19-82
	NEW MEXICO	4.37	150	E 11-27-82
	NEW YORK	4.21	107	E 1-24-81
ON	NORTH CAROLINA	5.04	120	B 02-13-83
*	NORTH DAKOTA	4.25	127	E 1-24-81
ON	OHIO	6.53	123	B 1-17-82
	OKLAHOMA	4.12	242	E 1-24-81
	OREGON	7.32	112	E 12-18-82
ON	PENNSYLVANIA	7.91	147	B 1-24-82
ON	PUERTO RICO	8.70	104	B 2-23-75
	RHODE ISLAND	5.98	105	E 10-23-82
ON	SOUTH CAROLINA	5.87	125	B 1-10-82
*	SOUTH DAKOTA	1/ (2.55)	(112)	E 1-24-81
	TENNESSEE	5.15	106	E 9-25-82
	TEXAS	2.99	195	E 1-24-81
ON *	UTAH	5.51	155	B 1-23-83
ON	VERMONT	5.78	126	B 1-23-83
	VIRGINIA	2.71	119	E 1-24-81
	VIRGIN ISLANDS	4.28	104	E 8-28-82
ON *	WASHINGTON	7.16	126	B 7-6-80
ON	WEST VIRGINIA	9.66	160	B 4-18-82
	WISCONSIN	6.63	114	E 12-11-82
ON *	WYOMING	5.18	240	B 02-13-83

* State does not have 6% option in its law
1/ Trigger Indicator as of January 22, 1983

U.S. Department of Labor, ETA, UIS
Division of Actuarial Services
February 14, 1983

NOTE: FSC Trigger Status on reverse side

Similarly, claimants who choose to leave their jobs in a labor dispute should not be permitted to draw 55 weeks of income support. Although only a few states' UC laws overtly provide benefits to strikers, many states, by judicial interpretation, pay benefits if the labor dispute does not force the employer to close down. Equity demands that the federal government be neutral with respect to labor disputes. It should stop spending scarce resources to subsidize strikes. Federal laws governing EB and FSC should be amended to disqualify a claimant who is out of work because of a labor dispute.

Most importantly, FSC eligibility should be conditioned on participation in a reemployment program providing intensive job search assistance, as well as referral to retraining for those claimants who cannot find jobs unless their skills are upgraded. The framework is contained in the Displaced Workers Title (Title III) of the new Job Training Partnership Act, (JTPA), which encourages states to offer placement assistance and training for job losers whose skills must be updated in order to find new jobs. Title III expressly exempts participants from UC work search requirements while in approved training. In the past, few individuals took advantage of even the limited training opportunities, in part because the availability of long-term UC or Trade Adjustment cash benefits discouraged claimants from accepting permanent changes in the job market. Any further extension of benefit duration without mandatory job search or retraining will encourage workers to postpone adjustment to permanent job changes and defeat the intent of JTPA.

Finally, a means test might well be appropriate for FSC eligibility. Considering that FSC is funded from federal general revenues--and considering the size of the budget deficit--a means test might well be a fair way to target the program to those with the greatest need.

5. Improve Linkage Between UC and Employment and Training Programs

One fundamental objective of UC which has never been adequately achieved is to help claimants find new jobs. Claimants are required to register with the U.S. Employment Service (ES), which is financed from FUTA revenues. ES has been given numerous other missions, however, which have detracted from its ability to focus on service to UC claimants. At present,

ES makes little effort to refer claimants to training programs, and efforts to teach claimants how to find jobs on their own are regarded as "experimental." Indeed, the cuts in federal administrative grants have caused states to shelve these successful money-saving programs so that staff may be used to handle the benefits claims load. Participation in intensive job search programs should be mandatory for EB and FSC eligibility. As stated earlier, FSC makes sense only if provided to individuals who are participating in job search assistance plans and/or retraining.

We now have a system in place that provides income support while claimants are in retraining. Federal law prohibits states from enforcing the work search test to disqualify a claimant who is in approved retraining. Moreover, JTPA specifically provides that a retraining program set up under the Displaced Worker Title (Title III) is approved automatically.

We stongly object, however, to diversion of revenues from the Unemployment Trust Fund to pay for the training itself. The Fund is heavily in debt, and the problem is growing daily; there is no extra money in the Fund to be used for any new expenses. Few of the nondebtor states have adequate reserves to meet existing benefits needs. The states that would most benefit from retraining have already depleted their balances, and the federal government would have to lend them money--with employers picking up the tab later in the form of higher state and federal payroll taxes. Payroll tax increases, of course, add to total labor costs and will delay expansion of employment as the economy recovers.

Perhaps an even greater issue is that of equity. Employers accept the responsibility of paying for income support during periods of temporary, involuntary unemployment, but the cost of retraining the long-term unemployed is not a predictable business expense. It would be more equitable for society to share such costs through general revenue financing.

6. Refrain from Unwise Employment Initiatives Involving UC

We need more information before we can assess the following employment proposals in the Administration budget message that contemplate changes in the UC program:

- Convert FSC benefits to a wage subsidy voucher that an employer could redeem for a credit against taxes. This proposal may not create any new jobs and could shift unemployment among groups of the unemployed. The possibility for abuse is very real. An unscrupulous employer might tell job applicants who are in their last week of regular benefits or EB to return after becoming eligible for FSC. Finally, if the net result of the voucher would be a reduction in already scarce FUTA or state UC receipts, the Trust Fund can ill afford this proposal.

- Urge the states to permit worksharing. The states already have authority to permit payment of benefits for "partial unemployment" to claimants whose work hours have been reduced 10% or 20% in lieu of layoffs. Worksharing does not encourage new jobs or retraining. It does add one more administrative function to an already overburdened system. Moreover, any employer can now shorten work hours and pay extra compensation for the reduced worktime without involving the UC system. We strongly oppose any federal standard requiring states to offer worksharing benefits, and we recommend that the Labor Department complete its study of the 3 states (California, Arizona, and Oregon) that now permit it before worksharing is encouraged as federal policy.

- Encourage states to permit claimants to work part-time and keep full benefits. Again, we strongly oppose any federal standard directing states to pay benefits to claimants who work part-time. All states now disregard some earnings when claimants accept part-time work. Many pay reduced benefits (on a sliding scale) to claimants who earn up to one-half of their weekly benefits. Changing these requirements will add to the administrative burden, because forms must be changed, earnings must be monitored, etc. Moreover, we are concerned that this recommendation may lead to higher unemployment costs with no

increase in employment. For example, in many states benefits are one-half of high quarter earnings. For retailers in those states whose part-time workers are full-time over the Christmas season, benefits may well be as much as their regular part-time earnings. If the claimant is offered the usual part-time hours of work in January but refuses, present law provides a disqualification from benefits, and the employer will hire someone else. If the claimant can keep full benefits and work part-time, there is no disqualification, and there is a drain on the Trust Fund.

CONCLUSION

Business strongly supports the UC system, which has worked well to provide a public system of insurance against short-term, involuntary unemployment. Today the Unemployment Trust Fund is in dire financial condition. We recommend that Congress take steps to help sustain economic recovery as the best aid for the UC system, and that other changes in the federal UC laws be made to restore its integrity. These include requiring states to repay federal advances, discontinuing use of FUTA revenues other than for services to the unemployed, requiring government agencies and nonprofit employers to pay their full share of benefit costs, converting FSC to a reemployment program, improving the linkage between UC and employment and training programs, and refraining from unwise "employment initiatives" that create new federal standards for state UC programs.

It is imperative that Congress advise the states that the advances to their UC trust accounts will not be forgiven.

Finally, Congress should provide general revenue funding for FSC administration expenses, in accordance with the law establishing that program.

Attachment 1

Insolvency of Unemployment Trust Fund

At present, the Unemployment Trust Fund is insolvent, and the outlook is for its financial condition to deteriorate further over the next few years. Twenty states, plus the District of Columbia, Puerto Rico, and the Virgin Islands have exhausted their benefit reserves, and 6 other states have requested loans.

These jurisdictions have received federal loans totalling $10.6 billion as of December 30, 1982, in order to continue paying benefits. The Trust Fund's Federal Unemployment Account (FUA), from which loans to states are drawn, itself is exhausted, and Congress has had to appropriate approximately $7 billion in repayable general revenue advances to FUA.

In addition to the state debt, but less widely known, is the $6.8 billion in general revenue advances to the FUTA-funded Extended Unemployment Compensation Account (EUCA), which is used to pay half of extended benefits (weeks 27-39) and all of the temporary supplemental extension from 1974-77.

Because UC benefits are financed through state and federal payroll taxes paid by employers, it is fair to say that business has outstanding liabilities to the Trust Fund totalling more than $17 billion, of which the Trust Fund has borrowed all but $2 billion from federal general revenues. These UC loans, of course, also have contributed to the federal budget deficit.

Chronic Indebtedness

The present indebtedness of the Unemployment Trust Fund is a comparatively recent phenomenon. In the early and mid-1970's, 25 jurisdictions exhausted their reserves and received advances. Although many borrowing states repaid their advances, 11 of the 25 have been in debt continuously since then, and 4 others repaid their loans only to borrow again

a short time later. To meet the demand for loans, federal general revenues were advanced to FUA--$8.6 billion by year-end 1982. DOL forecasts that additional general revenue advances will be needed, totalling more than $24 billion at year-end 1983, $40 billion by the end of 1984.

Cause of Insolvency

The simple explanation for the continuing indebtedness is that the borrowing states continue to pay out more in benefits than they are collecting in unemployment taxes. Unless these states balance benefit payouts and revenues, the problem will grow (thus the pessimistic DOL forecasts).

A number of factors are responsible for the continuing need for loans:

- States have not adjusted their UC programs to accommodate permanent shifts in the economy.
- Congress has legislated unfunded increases in maximum duration of benefits.
- Congress has failed to enforce repayment provisions in federal law, allowing states to increase benefits without providing a way to pay for them.
- Congress failed to require states to pay interest on federal advances received before April 1, 1982.
- False expectations that loans would be forgiven were created by congressional consideration of relief proposals.

Permanent Shifts in the Economy

During the 1970's and 1980's, unemployment has been higher during both recession and recovery. Some states have failed to factor these changes into their UC programs. As a result, they did not pay off federal advances during years in which unemployment was declining. In addition, many of them increased their benefits even during periods of accelerating unemployment (either through automatic escalators or statutory revision), further undermining solvency.

Unfunded Increases in Benefit Duration

In the 1970's and 1980's Congress extended maximum benefit duration on several occasions while providing inadequate funding or none at all. In 1970 Congress mandated an automatic 13-week benefit extension during high unemployment periods, payable to claimants who are unemployed after 26 weeks. These extended benefits (EB) are funded 50/50 from state and federal unemployment taxes, but many of the jurisdictions that received federal advances never adjusted their UC programs to finance the state share of the extension. Moreover, the federal share was never fully funded, either, and, Congress has had to appropriate general revenues as repayable advances to EUCA to cover the federal share.

In 1974 Congress enacted a temporary program providing a supplemental 13 weeks of benefits (Federal Supplemental Benefits, or FSB), payable to claimants who exhausted the 39 weeks of regular and extended benefits. This supplemental compensation originally was chargeable wholly to EUCA. Because EUCA was depleted, Congress once more had to advance general revenues.

As of year-end 1982, outstanding general revenue advances to EUCA for EB and FSB totalled $7.03 billion. DOL forecasts that this debt will be repaid in 1986, mostly because of the FUTA increase enacted in 1982.

In 1977, when Congress renewed FSB and extended the maximum combined duration of regular benefits, EB, and FSB to 65 weeks, the supplemental benefits paid after the renewal were funded directly from general revenues. That supplemental extension expired in 1978, but in 1982 Congress enacted the present, temporary supplemental benefit extension of 8 to 16 weeks, again funded directly from general revenues (Federal Supplemental Compensation, or FSC). FSC expires March 31, 1983.

Although their impact has never been measured, all of these benefit extensions, including those funded from general revenues, may be presumed to have increased the costs of the UC program by more than the amount actually paid out as extended or supplemental benefits. Economists have documented that claimants on average will draw more weeks of benefits as the maximum benefit duration is extended, because claimants know they may postpone serious search for new employment. Thus, merely by extending maximum duration, Congress has added an unfunded burden to the cost of regular state benefits.

Failure to Enforce Repayment Provisions

Federal law includes a provision for an automatic FUTA rate increase if states fail to repay UC loans within 2 years, but on several occasions Congress has bowed to political pressure from officials in borrowing states and suspended it or limited its application. For example, states that first borrowed during 1972 through 1975 were given until November, 1979, to repay without being held in default. Suspension of this repayment provision not only prevented collection of new federal revenues to reduce the balance of loans, but also shortcircuited the indirect but more important consequence of the escalating FUTA rate--the intrastate political pressure on state officials to restore solvency through benefit and tax adjustments.

In 1981 Congress limited the repayment requirement by enacting legislation freezing the FUTA increase at a relatively low level in defaulting states that meet certain tests (benefiting 11 debtor jurisdictions in 1981 and

1982). The tests were conceived as a means of spreading out repayment of existing debt as an incentive for states to take action to restore solvency, but the political process considerably weakened the originally-proposed solvency requirements. For example, to qualify for the freeze, states may not increase benefits or reduce tax efforts, but increases in benefits pursuant to automatic escalators are disregarded. To qualify in 1983 and 1984, a state must also have (1) repaid any amounts borrowed after September 30, 1981, and (2) imposed an average tax rate at least equal to its cost/benefit ratio over 5 years. Few states have taken action to meet these tests, and political pressure is growing to modify them.

Interest-Free Loans

A major factor contributing to chronic insolvency was the attractiveness of borrowing. Advances were interest-free, and good money management practices (as well as practical politics) dictated the use of interest-free loans rather than unpopular tax increases to pay for benefits.

In 1981 Congress enacted legislation requiring states to pay interest up to 10 percent on advances received beginning April 1, 1982, unless repaid witnin a relatively brief period. Moreover, states were forbidden to use state unemployment taxes, directly or indirectly, to pay the interest. Political pressure from state officials, however, led to 1982 legislation deferring payment of a portion of the interest owed, during periods of high unemployment. Pressure to waive or defer the interest is expected to grow in 1983.

False Expectations

The last major contributing factor is the psychological impact of congressional debate over proposals to forgive loans or adopt a cost equalization system of financing through which fiscally sound states would

subsidize the debtor states. While these proposals were not enacted, they were given serious consideration and were widely viewed as likely to be enacted. Not only did the debtor states receive the wrong signals, but some states may have delayed taking corrective action to strengthen their case for federal relief.

Conclusion

On the whole, easy access to loans has contributed to the present insolvency of the UC program. The opportunity to borrow has allowed legislators to yield to political pressure for higher benefits without having to face the political reaction created by a tax increase. While short-term borrowing can make economic sense by avoiding excessive accumulation of reserves in good years and payroll tax increases during economic downturns, the temptation to put off repayment of UC loans and to finance benefit increases through loans has proven irresistable for Congress as well as many state legislatures. Moreover, Congress has not enforced the automatic repayment law. The lesson is plain: Continued borrowing from general revenues to meet present benefit obligations risks delaying the day of reckoning until a time of relatively less favorable economic conditions.

Appendix

AUTOMATIC RECOUPMENT PROVISION

If a state that has received UC loans is in debt on January 1 of two consecutive years and fails to repay its entire balance by November of the second year, the state is considered to be in default on its loan, and the automatic repayment provision is activated, raising the net FUTA rate for employers in the defaulting state. The rate increases in .3 percent increments for each year the state continues in debt, applicable to payroll beginning January 1 of the second year. The revenue from the FUTA rate

increase is applied to reduce the state's outstanding loan balance. The .3 percent increments continue until the loan is repaid or the total FUTA rate reaches 3.4 percent (6.2 percent beginning January 1, 1985). Additional FUTA rate increases may be applied in states in default three or more years.

For example, a state that borrows in October, 1982, is in debt on January 1, 1983, and January 1, 1984, and fails to repay its entire balance by November, 1984, would be in default. The FUTA rate applicable to 1984 payroll would increase by .3 percent, and then increase in .3% increments until the loan is repaid or the maximum rate is reached.

The Omnibus Budget Reconciliation Act of 1981 freezes the incremental increases after 2 years if a state meets certain tests. For tax years 1981 and 1982, a state qualifies for the "cap" if it has taken no action that results in either a net tax reduction or a net decrease in solvency. In tax years 1983 through 1987 a state must also impose an average tax rate at least equal to its benefit cost ratio for the 5 preceding years, and the balance of advances on September 30 of each year beginning in 1983 may not exceed the balance on September 30, 1981 (or the balance on the third preceding September 30 in subsequent years).

The Tax Equity and Fiscal Responsibility Act of 1982 permits states to repay the equivalent of the FUTA increase out of experience-rated state UC tax receipts.

FEDERAL ADVANCES TO STATE UNEMPLOYMENT TRUST ACCOUNTS

State	Total Outstanding Debt December 30 1982	Oldest Advance Outstanding	Payment Due	Repayment Status	FUTA Rate* 1982	1983
ARKANSAS	$ 77.0 million	1980	Nov. 1983	Default	1.0%	1.4
COLORADO	4.4	1982	Nov. 1984		.7	.8
CONNECTICUT	$ 270.5	1972	Nov. 1983	Default	1.4	1.8
DELAWARE	53.9	1975	Nov. 1983	Default	1.3	1.7
DIST. OF COLUMBIA	56.9	1975	Nov. 1983	Default	1.3	1.7
ILLINOIS	2,069.0	1975	Nov. 1983	Default	1.3	1.7
IOWA	63.4	1982	Nov. 1984		.7	.8
KENTUCKY	121.4	1981	Nov. 1983		.7	.8**
LOUISIANA	102.4	1982	Nov. 1984		.7	.8
MAINE	20.9	1975	Nov. 1983	Default	1.6***	2.0
MICHIGAN	2,185.8	1980	Nov. 1983	Default	1.0	1.4
MINNESOTA	288.0	1980	Nov. 1983	Default	1.0	1.4
MISSOURI	89.8	1982	Nov. 1984		.7	.8
NEW JERSEY	520.7	1975	Nov. 1983	Default	1.3	1.7
OHIO	1,658.1	1980	Nov. 1983	Default	1.0	1.4
PENNSYLVANIA	2,145.3	1975	Nov. 1983	Default	1.3	1.7
RHODE ISLAND	101.7	1975	Nov. 1983	Default	1.3	1.7
TEXAS	142.9	1982	Nov. 1984		.7	.8
VERMONT	31.0	1974	Nov. 1983	Default	1.3	1.7
WEST VIRGINIA	144.2	1980	Nov. 1983	Default	1.0	1.4
WISCONSIN	412.9	1982	Nov. 1984		.7	.8
PUERTO RICO	65.6	1975	Nov. 1983	Default	1.3	1.7
U.S. VIRGIN IS.	2.9	1975	Nov. 1983	Default	1.3	1.7
TOTAL	$10,628.9					

Prepared by Eric J. Oxfeld, Employee Benefits Attorney
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* Tax rate applicable to 1982 and 1983 payroll. 1983 rate assumes that state does not meet cap criteria.

** 1983 FUTA rate will be 1.1% if state fails to repay by November, 1983.

*** Elected not to take advantage of cap.

Attachment 2

The Voice of Business

Richard L. Lesher, President
Chamber of Commerce of the United States

JOBLESS BENEFITS OUTSTRIP PAY FOR SOME AMERICANS

WASHINGTON -- Recently I suggested that high unemployment and welfare benefits have made joblessness an increasingly attractive alternative for many Americans.

This argument prompted many reactions, most of them favorable. But I was roundly criticized in some quarters for claiming, according to the critics, that we have high unemployment today because the unemployed simply prefer not to work.

First, let's be clear about what I did and did not say. I did not say that the vast majority of jobless Americans have chosen this condition. There is no question that most desperately want to work. I did say, however, that double-digit unemployment is caused by many factors, including the recession; excessive taxes and regulations that have strangled business activity; unreasonable wage demands by labor leaders which have helped price many of our products out of world markets; and finally, the fact that in recent years we have pushed unemployment and welfare benefit levels so high that joblessness has become a preferable and, in some cases, a more profitable alternative to work.

As evidence of this, consider the example of a typical Florida family of four with a weekly income of $250. (I am grateful to the Florida Farm Bureau Federation for providing me with this information.) If the wage earner in this case were laid off from his job, he and his family would receive the following monthly income and benefits:

Unemployment Compensation	$ 537.50
Food Stamps	151.75
Housing and Utilities Assistance	333.35
School breakfasts and lunches	70.40
Energy Assistance (approx.)	50.00
TOTAL Unemployed Monthly Income	$1,143.00

In other words, this worker while unemployed receives a tax free monthly income that is actually greater, six percent greater, than his salary on the job. Moreover, his jobless income and benefits are tax free while the salary is not. This makes the "unemployment premium" that much greater.

In fact, once taxes are taken into account, this $250 per week worker would have to find a job with a weekly gross pay of $312 in order to match in take-home pay what he gets by being unemployed.

In relating this example I am not passing judgment on whether current

unemployment benefits are too high or too low in terms of what it takes to provide for a family of four. But simple common sense about human motivation suggests that a society based on a system of incentives must reward those who work at a higher level than those who don't, regardless of whatever misfortune pushed the latter group into that condition.

Unemployment is a personal tragedy for millions of Americans. But for others it is a matter of choice -- and that choice is draining our economy of precious resources that should be in the hands of businesses and consumers so that jobs can be created for all those who do want them. This is a national tragedy that no one talks about.

# # #

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Senator HEINZ. Thank you, Mr. Dyer.

Mr. Kay?

Senator CHAFEE. Mr. Chairman, I am anxious. I do hope the witnesses will observe the 5-minute rule or we will be here until 4 o'clock, and that is a long period.

Senator HEINZ. I concur wholeheartedly with Senator Chafee's admonition.

Mr. Kay.

STATEMENT OF EDWARD H. KAY, JR., REGIONAL VICE PRESIDENT, NATIONAL COMPENSATION CONTROL SYSTEMS, AND CHAIRMAN, UNEMPLOYMENT COMPENSATION SUBCOMMITTEE, COUNCIL OF STATE CHAMBERS OF COMMERCE, ACCOMPANIED BY WILLIAM R. BROWN, PRESIDENT, COUNCIL OF STATE CHAMBERS OF COMMERCE

Mr. KAY. I will condense my comments as briefly as I can.

Senator CHAFEE. I hope they fall within the 5 minutes.

Mr. KAY. All right.

I am Ed Kay, chairman of the Subcommittee on Unemployment Compensation of the Council of State Chambers. Bill Brown, the president of the council, is with me today.

The extension of FSC benefits, we can support the 30-week test in order to qualify for FSC, particularly in situations where the individual will be qualifying for weeks beyond 39 as he is already eligible for the extended benefits.

In terms of not being eligible, if the person voluntarily quits or has been released with cause, we agree that is an appropriate requirement to put on the FSC program, the same as it is on the extended benefit program.

In the area of training and relocating programs and incentives, we feel that the basic unemployment compensation State taxes should be used solely for paying unemployment compensation benefits, and not for training purposes. The States have adequate resources or adequate ability to raise revenues if they want to develop a training program within their State without tapping the unemployment tax which, to understate it, is under dire straights right now in most States.

In terms of the voucher proposal, we understand the administration's concern with trying to put people back to work. We do not believe the voucher program in the FSC program is appropriate, though. If for no other reason, it places a premium on this type of individual to be employed by an employer as opposed to other people who are unemployed, such as those drawing regular benefits, drawing extended benefits, those who might qualify for the targeted job tax credit, or just new entrants into the labor market. We don't think it is appropriate for a premium to be placed on an individual.

The last item and the most important, I think, is the area of interest on State loans and the cap. We have heard some very good comments today by Governor Thompson. Earlier, Governor Blanchard of Michigan made some recommendations. The congressional action requiring States to pay interest on loans has been most help-

ful in encouraging some States to face up to the necessity of modifying their benefit programs and improving their State laws.

By and large, these changes in benefit provisions at the State level have resulted in laws that do a better job of paying the appropriate benefit amounts to only those persons who have demonstrated an attachment to the labor force and are truly unemployed through no fault of their own. The Congress, we believe, should continue to provide strong incentives for the States to face up to their responsibilities. Therefore, any suspension of interest or changes in the cap should be conditioned on the State meeting strict requirements for putting their unemployment programs on a sound basis.

In this regard, we believe the proposals of Governors Blanchard and Thompson have merit. Their proposals provide an appropriate framework within which an equitable solution can be developed as they address both increases in taxes as well as restrictions in benefit eligibility and amounts. Fine tuning will be necessary.

As an example, under Governor Blanchard's proposal, the State of New Jersey could reduce their replacement rate from 66⅔ to 66 percent, a very nominal adjustment, and qualify because they have made a reduction in benefit replacement rates. We believe something must be done stronger than that.

Senator Heinz, you have mentioned earlier or you had asked a question specifically as to whether Congress should mandate these specific changes that should be made at the State level, or should it be a percentage approach. Both have drawbacks. The percentage approach has the drawback that a State that has a very liberal law to begin with can meet a percentage reduction without really cutting into those individuals who under other States would be eligible or should qualify.

On the other hand, a mandated type of approach touches on Federal standards, which we are strongly opposed to. Possibly an approach would be to put forth a shopping list of areas that are important in the area of unemployment compensation, and couple that with a percentage approach. In other words, a State that cuts their benefits by 25 or, say, 20 percent, or meets certain of the shopping list requirements within the State in terms of benefit eligibility, benefit replacement rates, duration, disqualifications, if it met one or the other, it would then be in a position to qualify for interest deferral, interest reduction, a cap at the Federal level on the FUTA tax.

We think it is only appropriate that States that are asking for a reduction in interest or for an extension of the cap, have provisions that are at least as stringent as the majority of the other States within the country. In other words, present a shopping list that is tied into what is the majority of the other States' requirements.

That concludes my remarks. Thank you.

[The prepared statement of Mr. Kay follows:]

STATEMENT OF EDWARD H. KAY, JR. ON UNEMPLOYMENT COMPENSATION
TO
THE SENATE FINANCE COMMITTEE
ON BEHALF OF
THE EMPLOYEE BENEFITS AND RELATIONS COMMITTEE
OF
THE COUNCIL OF STATE CHAMBERS OF COMMERCE
MARCH 3, 1983

I am Edward H. Kay, Jr., Regional Vice President, National Compensation Control Systems. I appear today as Chairman of the Unemployment Compensation Subcommittee of the Employee Benefits and Relations Committee of the Council of State Chambers of Commerce. Accompanying me is William R. Brown, President of the Council of State Chambers of Commerce.

Mr. Chairman, we appreciate this opportunity to comment on behalf of the Employee Benefits and Relations Committee of the Council of State Chambers of Commerce on the Administration's unemployment compensation and training incentive proposals and the pressure from the States for relief from the Federal interest requirements that Congress wisely imposed on loans to permit States to continue unemployment benefit payments in the face of depleted State funds.

EXTENSION OF FSC BENEFITS

Support for Administration Attachment to Labor Market Requirement

The Council of State Chambers of Commerce has long taken the position that the employer obligation to finance unemployment compensation should be met through properly functioning State Experience Rating Tax Systems and should be confined to the basic 26 week benefit program and the Federal-State Extended Benefit Program. Congress has correctly recognized that when there

is widespread unemployment for longer periods, benefits should be financed by society in general by the Federal government.

In view of the 100% Federal financing of the Federal Supplemental Compensation (FSC) Program we believe that the Administration's proposal to require a 30 week employment test of attachment to the labor market to qualify for these benefits and to disqualify those who voluntarily quit their jobs or who were "fired for good cause" are appropriate. These requirements are in keeping with the unemployment compensation principles of benefits for persons unemployed through no fault of their own who have demonstrated attachment to the labor force.

TRAINING AND RELOCATION PROGRAMS AND INCENTIVES

State Programs Desirable, But Should Not Be Financed by Unemployment Funds

The basic principle of State unemployment taxes has been from the beginning, and we believe should continue to be, to pay for unemployment benefits for persons unemployed through no fault of their own. Although it is certainly desirable to encourage State training programs it should not be financed by doing violence to this principle. Therefore, we are opposed to the Administration's proposal to permit State's to use 2% of their unemployment benefit funds for training programs for the long term unemployed. Furthermore, most of the States have inadequate funds to pay unemployment benefits, therefore it is particularly inappropriate at this time to attempt to use the limited funds for any purpose other then unemployment benefits.

It should also be noted that the States currently have the ability to raise funds from other sources for training purposes without undermining the financing of unemployment compensation. This approach would be more logical particularly when it is realized that States who are paying interest would have to pay more interest in the future. This could result in the final costs of such training being 10% or more then in other States. Furthermore, using State unemployment taxes would reduce a States ability to meet Federal cap provisions on FUTA reductions.

This proposal would offcourse increases "socialized" costs for the State programs which is completely inconsistent with the Administration's desire to make experience rating work more effectively.

The Voucher Proposal

We sympathize with the Administration's desire to provide incentives for employers to hire the unemployed. We doubt, however, that the proposed voucher program will contribute very much to this objective. In fact, it could be counter productive in terms of other programs such as Targeted Jobs Tax Credit. To be specific, the individual qualifiing for FSC would carry a premium for employment which would be at the expense of other unemployed including those qualifying for T.J.T.C. or regular benefits.

It should also be noted that the Administration's proposal results in tax credits which could exclude governmental entities and nonprofits from participating. All employers should be able to receive a credit.

INTEREST ON STATE LOANS

Continued Interest Requirements Essential - Placing State Benefit Programs on a Sound Basis Should be a Prerequisite for Interest Relief

The Congressional action requiring the States to pay interest on loans from the Federal government to help finance their unemployment benefit programs has been most helpful in encouraging some States to face up to the necessity of modifying their benefit programs and improving their tax laws. The benefit changes result in laws that do a better job of paying appropriate benefit amounts to only those persons who have demonstrated an attachment to the labor force and are truly unemployed through no fault of their own.

The Congress should continue to provide incentives for the States to face up to their responsibilities. Any suspension of interest payments should be conditioned on a State meeting strict requirements for putting their unemployment programs on a sound basis. In this regard we believe that the proposal of Governor Blanchard of Michigan has merit. His proposal provides an appropriate framework within which an equitable solution can be developed as it addresses both increased tax efforts and restrictions in benefit eligibilty and amounts. Fine tuning of his proposal should include more specific objectives in terms of benefit modifications. As an example, reducing the wage replacement ratio should include the amount of reduction that would be appropriate based on levels in all other states.

CAP ON LOSS OF FUTA CREDIT

The cap on the loss of FUTA credit was passed to encourage States to pay their outstanding debts through their experience rated tax laws and to control benefit provisions. Many States have taken strong steps towards these objectives but will still fail to qualify for the cap as a result of unforseen economic situtations which were created by back-to-back recessions. In light of the current status we believe that Congress should examine the cap provisions to make necessary adjustments so that those States which have legislatively addressed their circumstances can qualify for the cap.

Senator HEINZ. Thank you very much, Mr. Kay.
Mr. Semple.

STATEMENT OF NATHANIEL M. SEMPLE, VICE PRESIDENT AND DIRECTOR OF GOVERNMENT AFFAIRS, RESEARCH AND POLICY COMMITTEE, COMMITTEE FOR ECONOMIC DEVELOPMENT

Mr. SEMPLE. What is interesting about being at this stage of the game is that your original testimony shrinks like a dried-up sponge, so I will quickly summarize my remarks.

I am also told by your gracious staff that if I could keep it in 5 minutes, I might be the favorite witness on the panel. So let me get to the point.

First, CED does see a need to deal with the long-term unemployment problem. Second, we do not believe any proposal offered thus far satisfactorily answers that need.

Third, we think the President's approach, particularly in relation to public works, would be inadequate.

Fourth, the real problem is that what we are experiencing is countercyclical unemployment which has become structural in nature. As Governor Thompson pointed out, individuals who have been unemployed for an excessively long period of time are unlikely ever to find their original jobs. The real question is, what do we do?

As David O'Neill of the Bureau of the Census described in the Washington Post several weeks ago, 1.6 million individuals have been unemployed longer than 1 year. No policy now deals with this group, and with limited resources, I believe the need is to target on these individuals. What is unfortunate about the current proposals is, none seem to be addressing them.

We feel that the UI program offers some real possibilities. The panel here and others have gone to some extent to discuss the difficulties in trying to use UI as a transition device. CED has long been on record urging that UI be redesigned as a more effective transition device after a person has been on UI for a reasonable period of time.

In my testimony, I have suggested numerous possibilities though with a few cautionary notes. I think it is important to recognize that UI is an integral part of our overall employment policy. Unfortunately, we have tended to look at it in a separate, disparate fashion, and it is time to look at UI as an integral part of a job creation policy.

The attractiveness of UI and the UI system is that it is already in place, that it directly links employers and employees, and that it ties benefits to those who are truly in need and unemployed. No other Federal or State program administered anywhere offers the same advantages.

Admittedly, we have to address the short-term financial crisis in so many States. My conclusion is CED feels that a considerable amount of attention needs to be addressed to the long term and once the current proposal passes, to looking at UI as a system that can serve a wide range of transition needs of the unemployed.

Thank you very much.

[The prepared statement of Mr. Semple follows:]

TESTIMONY

OF

MR. NATHANIEL M. SEMPLE

VICE PRESIDENT

COMMITTEE FOR ECONOMIC DEVELOPMENT

on

THE ADMINISTRATION'S JOB CREATION PROPOSALS AND RELATED MEASURES *

before

COMMITTEE ON FINANCE

UNITED STATES SENATE

March 3, 1983

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* The positions taken in this testimony are partially based on CED's policy statement, Jobs for the Hard-to-Employ (1978); the paper, Employment Policy for the Hard-to-Employ (1982) and the forthcoming statements on Productivity Policy and Industrial Strategy. However, the views expressed herein are solely those of the author and in no way necessarily represent individual CED trustees or their organizations.

Mr. Chairman, I appreciate the opportunity to testify today on behalf of the Committee for Economic Development on the various job creation proposals now under consideration. As you know, CED is comprised of 200 of the nation's leading business executives and university presidents who view their mission as developing policy recommendations that look to long-term economic growth and social betterment for our nation. Accordingly, CED has not developed an "official" position on any specific proposal, including the President's. However, over the past several years we have developed numerous policy recommendations, particularly with respect to meeting the needs of the unemployed, which bear on consideration of these proposals and, I believe, lay out clear and compelling principles by which they should be examined.[1]

Several of these were recently included in a CED statement, Employment Policy for the Hard-to-Employ, released on June 7, 1982. This statement set the stage for CED's working with an informal working coalition of business groups, known as the Business Working Group for Human Resources in developing recommendations for the recently enacted Job Training Partnership Act. We believe JTPA can have a significant impact, and are convinced that the new partnership between local governments and business as embodied in the redesigned private industry councils (PIC) will make a lasting contribution to the economic vitality of the nation's communities,

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1. See Committee for Economic Development, Jobs for the Hard-to-Employ; New Directions for a Public-Private Partnership, (1978), Employment Policy for the Hard to Employ: The Path of Progress (1982); forthcoming statements on Productivity and Industrial Strategy.

not only with respect to the training of the hard-to-employ, but in the greater involvement of business in upgrading elementary and secondary education, in cooperative efforts aimed at expanding local economic development, and in a variety of other ways. We at CED are committed to seeing that its implementation is accomplished smoothly and results in a significant new involvement of the business community unemployment and training programs.

First, Mr. Chairman, we believe any legislation dealing with the short-term must be viewed in context with the need to adopt those long-term fiscal policies essential to restoring sound, non-inflationary economic growth. I would like to submit for the record a statement which has just been prepared by Fletcher Byrom, CED's Chairman, which summarizes our current thinking on fiscal policy. Some of the specifics of his statement reflect only Mr. Byrom's personal views, but it is primarily based on recent CED policy positions in this area.

In his statement, Mr. Byrom sets forth four essential goals for fiscal policy:

- a progressive, year-by-year reduction in the inflation rate until essential price stability is achieved,
- achievement of healthy economic growth and high employment,
- a significantly greater share of GNP being devoted to investment and saving, and

adequate weight to the concerns of those disadvantaged members of our society who have the greatest need.

It is this latter goal -- addressing the concerns of those most in need that underscore my remarks today. I would predict that a majority of CED's trustees would support, at least in spirit, the President's effort to enact the job creation bill, although with some real concern. First, they would want to ensure that any projected new outlays fall within the fiscal constraints specified in Mr. Byrom's statement. More specifically, they would wish that any new outlays be judged in terms with the pressing need to gain a handle on the projected enormous and successive "outyear" budget deficits. Reducing such deficits is essential if we are to restore confidence in future non-inflationary growth and expect to see continuing decline in interest rates. And second, considering the views they have expressed in past CED policy statements dealing with employment policy, particularly the hard-to-employ, I believe a majority of our trustees have real reservations about some of the specifics and would wonder whether or not the proposal will accomplish what its authors intend.

The first and foremost question to ask is just who do we intend to help with the job creation bill? It is surprising just how little thought is given to this. It is often assumed that "unemployed" means the same thing to all people. For example, when one hears the figure "12 million individuals" are out of work, there is a tendency to be-

lieve that these are the exact same individuals who were unemployed the last time these unemployed statistics were announced. Yet even as late as this past January, 7.5 million of the unemployed had found re-employment within fourteen (14) weeks.

There is also the assumption that most of these are workers who have lost their jobs in the steel, auto or related industries. While unemployment in these industries remains at crisis proportions, one should not forget that nearly half the current unemployed are in what are essentially white-collar occupations, i.e., managerial, professional, technical, sales, administration and service related employment. And finally, one statistic worth mentioning -- particularly in light of the current emphasis on public works -- is that although unemployment is at near historical highs in the construction industry, it constitutes only 1/12 of overall unemployment.

I mention these statistics only to show that unemployment is not static; it is dynamic, effects individuals in all occupations, has a greatly differing impact on individuals and, as I will describe below, requires a flexible yet clear, consistent and predictable approach.

It is equally important to remember that as in past recessions, there exist three general types of unemployment: frictional, structural and cyclical. "Frictional" unemployment is generally associated with normal job turnover in the economy -- where individuals voluntarily are changing jobs or have quit voluntarily. These include, for example, youth who return to school or individuals leaving one job to take another one elsewhere. This unemployment is usually

brief in duration. Frictional unemployment obviously fluctuates considerably with the business cycle.

"Structural" unemployment, in its purest sense, is unemployment that results from permanent shifts in demand. For example, unemployment resulting from a permanent downward shift in steel capacity is "structural". But policy makers in the past ten years have tended to include in the definition of "structurally" unemployed any one whose skills, work experience or other employment handicaps prevent them from obtaining employment.

Finally, "cyclical" unemployment involves those who have either lost or were laid off from their jobs but who are likely to regain employment in their original occupations once the economy improves.

What is troublesome about the current recession is that those we would have considered as cyclically unemployed, which were generally provided for within our traditional unemployment insurance system -- are now experiencing what are structural problems. The evidence reveals that in past recessions, almost 80% of those deemed "cyclically" unemployed returned to their former occupations. Although there is considerable debate over the extent of the shift, it is clear that a significant number of those who would have otherwise expected to return to their original jobs will simply not find one available. In other words, to use the current idiom, they will have become "permanently dislocated".

One way of looking at this is simply to look at the duration of unemployment. Unfortunately, our current method of collecting unemploy-

ment data does a poor job of measuring hardship. But it can be fairly well assumed that (1) the longer a person remains unemployed, the worse it becomes and (2) the greater the chances that person will be "permanently" dislocated and will require retraining or relocation of some sort.

The number of such individuals has grown dramatically. As David O'Neill of the Census Bureau pointed out several weeks ago in an extremely illuminating analysis in the Washington Post, the number of individuals who have been unemployed longer than 26 weeks has doubled in the past year. And the number who have been out of work for over a year now totals nearly 1.6 million.

Giving this as a context, it is somewhat hard to discern precisely what kind of unemployment the President's proposals, as well as others being developed on the hill, are designed to address. My assumption is that they are directed towards "cyclical" unemployment and to provide jobs quickly to a large number of unemployed, presumably most of whom would have been out of work for some time.

Whatever the focus, the President's and other proposals attempt to address the unemployment problem in one of two ways: direct and indirect. Direct methods include public works, public service and other community development employment programs. Indirect methods involve the use of such incentives to business as tax credits.

CED has never enjoyed a great deal of enthusiasm for the direct approach. It is our conviction that the only real solution to cyclical unemployment is economic recovery. CED has supported direct hiring, however, if the programs hire those most in need and where the jobs are designed to improve a person's chances for unsubsidized employment in the future. In short, CED has espoused direct job creation as a possible way to reduce "structural" unemployment.

Over the years CED has developed a number of principles concerning direct job creation programs:

1) Such jobs should be directed to those most in need;

2) the jobs should include adequate skill development to improve a person's chances for future unsubsidized employment;

3) such jobs should be of a limited duration to enable as many of the unemployed as possible to enjoy the benefits of such work opportunity;

4) the programs should involve a minimum of administrative overhead;

5) substitution, whether by public or private employers, should be prevented as much as possible;

6) that the job contribute to community revitalization and not be "make-work";

7) that the administration of the program should be the responsibility of local officials with a significant business input.

Public works would not appear to meet more than one or two of these tests. While it may be effective for long-term economic revitalization of a community, it is particularly unsatisfactory both as a short-term job creation device and for addressing structural

unemployment. CED, I believe, would support efforts to improve the nation's infrastructure as an important capital public investment, but as Franklin Lindsay, CED's Vice Chairman and Chairman of the Executive Committee of Itek Corporation, testified before another Senate Subcommittee several weeks ago:

> "Similar efforts in the past have not proven to be particularly effective in generating new jobs. The $6 billion public works job program passed by Congress in response to the 1974-75 recession did not reach full levels until 1978 -- 3 years after the recession had reached bottom...
>
> Subsequent analysis by OMB, the Congression Budget Office and others revealed a very high level of substitution. OMB, in 1979, found that only two percent of the funding and only 12 percent of the jobs provided in the 1974 local public works program went to individuals who had previously been unemployed."

Perhaps, the most critical assessment of public works is contained in the Economic Report of the President, which states that, in fact, public works programs have proven to be "counter-productive". What makes public works even more problematical is that it is targeted to hiring individuals at prevailing rates of pay in an industrial sector that has historically enjoyed a large premium over those in general manufacturing. And while that industry admittedly suffers from a very high level of unemployment, it might better be served by a continued decline in interest rates brought on by reduced projected budget deficits.

The traditional alternative to public works, of course, has been public service employment. Few programs have suffered as

ignominious a history as PSE. Despite what appears to be quite successful efforts to reform the program in 1978 -- reforms that CED supported -- PSE never recovered from the scandals of nepotism, patronage and abuse that afflicted it during its heyday in the mid 70's when nearly three quarters of a million were employed under its auspices.

But even if reformed -- and I believe the recent reports by Bill Mirengoff and associates are convincing in this respect -- PSE can only marginally effect cyclical unemployment.

In my view, PSE should only be considered in the context of the principles I have enumerated above, chiefly to provide the longest-term unemployed with a work training experience that will hopefully lead such individuals to permanent, unsubsidized jobs.

I should mention one parenthetical thought strongly recommended by Mr. Lindsay: One of the principles which was included in the President's proposal is to move up already budgetted contracts where there is clearly a recognized national need and where there is a real employment effect. One way of doing this is to follow the mandate already in law that contracts be let throughout the government that impact on labor surplus areas. While this is not a "solution" to the unemployment problem, more rapid implementation of already existing contractual authority in this fashion would be useful in and of itself.

The second approach to job creation is indirect -- through tax and other incentives to business and, as some current proposals recommend, to public employers. The Targetted Jobs Tax Credit is the most notable example. CED, again, has never been very enthusiastic about the tax credit concept.

A new indirect method has been proposed by the President. As I understand it, the President has recommended a UI tax offset to any employer agreeing to hire an individual on FSB. A similar approach has been recommended by Senator Dan Quayle in S. 242. It is my understanding that the underlying premise of these recommendations is an effort to utilize the UI system as a more effective transition device. CED has, in the past, recommended expanding the availability of greater work and training opportunities to persons on UI. However, CED has not taken an "official" position on these proposals and I will thus limit myself to a few personal observations.

To begin with, we should recognize some important realities:

First, the UI system is suffering extraordinary financial strain. The high-unemployment states are running deficits that, considering the recent legislation requiring interest payments, may take years to reduce -- even assuming economic recovery fully benefits them. Just yesterday, the District of Columbia announced a strict limit on both amount and duration of benefits. Clearly, this situation needs to be addressed.

Second, the effectiveness of the Employment Service must be examined. In 1978, CED recommended a number of policies designed to improve its functioning, particularly in the job areas of counseling, job search and job referral. One recommendation made by CED in 1978 -- to integrate more carefully the employment service with other federal, State and local employment and training programs was adopted in the recent Job Training Partnership Act. Now, for the first time, the business community, through their involvement on the PICs, will

have an opportunity to jointly plan local ES activities. This is an excellent first step, and may lead to a much more effective use of the nearly 1 billion dollars which employers spend via way of the UI tax on ES functions. A second recommendation CED made in 1978 involved the actual way in which the ES handles its job placement functions. Rather than detail these, suffice to say that we encourage the ES to devote even greater attention to the longer-term unemployed and those receiving unemployment insurance. It is important that these matters be addressed at the same time we consider new ways to make UI a more effective transition device.

Concerning the President's UI proposal, and that of Senator Quayle, let me say that these comments do not reflect CED's views, nor that of any trustee or his or her organization. CED is now wrestling with a number of possible recommendations designed to improve the functioning of the labor market which we intend to include in our forthcoming statement on Industrial Strategy.

The advantage of a UI voucher is that is a clearly recognized, direct incentive to the employer, unlike the tax credit. One of its disadvantages is that the substitution question and the fact that it gives preference to the long-term unemployed, in effect, putting them at the head of the hiring line. A third disadvantage is that might encourage those nearing the end of the State UI program to "hold" on for FSB.

Despite the problems, I believe its worth exploring. First, targetting on the long-term unemployed is not bad policy, if one

assumes those who have the longest unemployment duration are those most in need. Second, if the Employment Service adopts strict job search, counseling and referral rules, it would minimize the "blip" effect.

Third, some way needs to be found to encourage those States which now prohibit retraining or re-education to do so to allow greater flexibility. In 1978, CED recommended that this be done after a "reasonable period of time".

One possibility is to limit the voucher as an offset of on-the-job-training, perhaps, one of the more successful job development programs. Under JTPA, not more than 1/2 the cost of such training is subsidized, but even so, employers have generally viewed this program as one of the more useful ones coming out of the employment and training system. Perhaps, a similar approach would be considered in this area.

Before concluding, let me suggest one other possibility which, while not included in the President's programs is worth discussing, that would fall under your Committee's jurisdiction. Again, the source is Senator Quayle's S. 242. As currently drafted, section 202 of S. 242 would allow a properly certified "dislocated" worker to withdraw contributions and interest on individual retirement accounts without incurring a tax penalty currently stipulated under Section 408(f) of the Internal Revenue Code 154. Some concern has been expressed this may undermine the purpose of IRA and I know that CED's trustees would also share this concern. As you know, we have been among the strongest

proponents of expanded incentives for private savings for retirement and worked hard for adoption of the IRA concept. I would urge, therefore, that if adopted, the eligibility for such a draw down carefully be drawn to prevent abuse and to assure emphasis on the principle purpose of IRA. Nevertheless, the fact remains that any individual who has been unemployed more than half a year needs to be able to draw on all the family resources that individual can obtain.

Mr. Chairman, we believe that any jobs creation device needs to consider the pressing need to restore the economy to full health. And if the Congress is to adopt a package, it should be clearly designed to address the reality of unemployment and specific local labor market conditions. It should be targetted on those most in need, in a way that improves their chances to gain meaningful employment once the economy recovers. It should thus encourage individuals to gain training and employment that truly reflects the rapid changes going on in the economy. Any such approach should be tied as closely as possible to the individual who is unemployed and to the employer community and, should avoid a costly new administrative structure. The best way to accomplish this is to provide that both employment and training opportunities be developed at the local level.

Mr. Chairman, I appreciate the opportunity you have given me to testify today.

STATEMENT

of

Fletcher L. Byrom
Chairman, Committee for Economic Development
and
Retired Chairman, Koppers Company, Inc.

for submittal to

COMMITTEE ON FINANCE
UNITED STATES SENATE

March 2, 1983

Mr. Chairman:

On behalf of the Committee for Economic Development (CED), I am pleased to submit this statement outlining the basic approach toward current fiscal policy issues that we believe is needed to restore sound noninflationary growth of our economy. While some of the cited specific applications of this approach are my own personal recommendations, the positions described here are generally in line with those that CED has supported in the past. In a separate section of this statement, I shall also describe the preliminary views on key budget process issues that have emerged from the discussion of CED's Subcommittee on Budget Concepts and Processes to date.

Fiscal Policy Issues

A central feature of CED's thinking ever since our organization was founded over forty years ago has been a focus on the long term. We believe it is essential that short-run fiscal, monetary and other economic policies be systematically and steadily geared to the nation's broad long-range economic goals. In testimony submitted to this Committee last year, I described four of the key goals as follows:

> "First, there is need for a progressive, year-by-year reduction in the inflation rate until essential price stability is achieved... There are strong reasons for believing that we are now witnessing more permanent progress toward bringing down the underlying inflation rate... But adequate progress toward the goal of reducing inflation cannot be taken for granted and fiscal and monetary policies... must be conducted on the assumption that inflationary risks remain great.

"A second central policy aim is the achievement of healthy economic growth and high employment. Given the continuing inflationary threat, some moderation in the rate of long-term economic growth from what otherwise might have been desirable is probably necessary. But demand restraint must not become so severe that it blocks out necessary incentives for capital formation and productivity growth.

"Third, public policies need to be redirected so that a significantly greater share of the growing real Gross National Product will be devoted to investment and saving. We need more investment not only in new plant and equipment but also in more rapid technological progress and innovation, in domestic energy production and conservation, in improved skill training and education, and in public infrastructure.

"Fourth, for reasons of both equity and humanity, national policy can and should give adequate weight to the concerns of those disadvantaged members of our society who have the greatest need."

In our view, these goals remain as relevant today as they were a year ago. It is encouraging that there is now a much wider public consensus that fiscal policy should be aimed at achieving these goals. More specifically, the fiscal program should contain the following ingredients:

1. The enormous and successively growing "outyear" budget deficits that are now in prospect in the absence of further policy actions must be sharply reduced to levels that are consistent with lower real interest rates and sound economic recovery. Most importantly, there needs to be a decisive reversal of the trend toward ever-rising budget deficits and a clear demonstration that expected future structural deficits will eventually be eliminated. Such action is vital for achieving each of the goals cited earlier: preventing a

damaging resurgence of inflation as the economy recovers; insuring that economic expansion will not be aborted by unduly high levels of long-term interest rates propped up by expectations of enormous future budget deficits; averting a "crowding out" of needed private capital investment by such deficits; and preventing further damage that is likely to be inflicted on the most disadvantaged members of our society if these future deficits should lead to more inflation as well as to an abortive recovery.

2. The total cut in future deficits must be sufficiently credible to make a major dent in current inflationary expectations and bring about the kind of interest rate reduction that is needed for vigorous revival of capital investment. An appropriate goal might be to aim at a deficit-reduction path that would lead to elimination of the deficit or even a modest budget surplus when the economy returns to high employment with reasonable price stability. This is a more stringent requirement than that used in the President's budget, which projects a return to high employment (defined as 6-1/4 percent unemployment) by FY 1988 but still envisages a budget deficit of $117 billion, or 2.4 percent of GNP, for that year. On the other hand, if one accepts the more recent projections by the Congressional Budget Office (which point to significantly lower structural deficit levels than the President's budget), the total deficit-reduction task to be achieved until the indicated goal is reached appears more manageable, though still very formidable.

3. At the same time, care must be taken that the budget is not tightened so abruptly that it interferes with a healthy near-term recovery. A substantial part of the projected deficits for FY 1983 and 1984 reflects the effects of continued weakness of the economy, as manifested in abnormally high rates of unemployment and abnormally low levels of capacity utilization. Attempts to reduce or eliminate the "cyclically-induced" portions of the deficit could well lead to a progressive weakening of the economy and actually add to the deficit problem.

4. To achieve the needed budget deficit reductions, a comprehensive approach is required that will spread the burden fairly. Means-tested and other programs targeted on the poor have already been cut very substantially and should not be viewed as a source of further major savings. The principal deficit reductions will have to come from nonmeans-tested entitlement programs and other domestic transfers and subsidies; defense spending; and revenue increases.

In the nondefense area, the largest share of budgetary savings should come from slowdowns in the growth of entitlement programs, particularly through limitations on automatic cost-of-living adjustments. In this connection, we support the compromise recommendations of the Greenspan Commission on Social Security. While our own preferred solution would have been for a more far-reaching approach, along the lines spelled out in our 1981 policy statement, Reforming Retirement Policies, we believe that the Greenspan Commission compromise is the

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only solution that now has a clear chance of adoption. Early action to put it in effect is urgently required in the interest both of the Social Security System and of reducing prospective budget deficits. At the same time, we continue to believe that timely action is also essential to deal with the longer-range problems of the Social Security System, particularly through a gradual increase in the normal Social Security retirement age to 68. This could be accomplished in small steps, by beginning now to increase the normal retirement age two months a year until the higher retirement age is reached by about the year 2000. In addition, we favor less than full cost-of-living adjustments for other entitlement programs as well (with appropriate exceptions for persons in the lowest income categories) together with forceful action to phase out various uneconomic subsidies that do not constitute part of the essential social safety net.

Defense spending should be subject to the same intensive scrutiny that has been applied to nondefense programs. This should permit significant savings from projected increases, at least for the "out-years" starting in FY 1985, without weakening our basic defense posture. Better-honed strategies, plus improved procurement and pre-purchase planning, ought to enable us to get more for our money. There must be full recognition of the need to set clear priorities among defense programs and to ensure that the total program is consistent with viability of the economy. A strong economy is in itself a key ingredient of overall U.S. national security.

Many of CED's trustees share my belief that a cut of about $25 billion in projected FY 1985 defense spending would be feasible with this approach. The main emphasis, however, should not be on the precise budget outcome in FY 1984 or 1985 but on restraining the growth of defense spending over the next 5 to 10 years. In fact, near-term savings in personnel and maintenance costs might well prove counter-productive if they should lead to larger-than-projected expenses for these categories in subsequent years to preserve the required degree of defense readiness. What we need is an efficient, sustainable long-term program for strengthening our defenses, without peaks and valleys that are wasteful and also damaging to effective dealings with our allies and with the Soviet Union.

Congress needs to be resolute in driving for the maximum feasible combination of the kind of spending cuts I have outlined, and for this task it needs strong support from the Administration and from the public. Even such an effort, however, will probably not be enough to produce the total deficit reduction that is required. Therefore it seems inescapable that measures to increase revenues will have to be part of the deficit-reduction strategy. I regard such tax increases, however, as a last resort, justifiable only if Congress is in fact acting resolutely to curtail government expenditures along the lines outlined here.

If tax increases are enacted in this way, we believe national objectives would be best served if they are designed to fall primarily

on consumption. Some increases in revenues over current projects can be expected if the Social Security compromise is adopted. Other revenue gains should be achievable through wider reliance on user charges and other structural changes in the tax system. As is discussed in more detail in the CED policy statement on Productivity Policy: Key to the Nation's Economic Future that we will publish in about a month, various structural changes of this kind are desirable, particularly those that encourage saving and productive investment rather than consumption.

Beyond this, however, the need to bring the deficit under control is likely to call for imposition of additional broad-based taxes once the recovery has become firmly established. To deal with this prospect, the Administration has prepared a contingency tax plan, (involving an excise tax on domestic and imported oil and a 1 percent income tax surcharge on individuals and corporations) that would take effect in FY 1986 under specified conditions. We recognize the possibility, however, that the specific contingency tax approach outlined in the budget may not mesh well with Congressional procedures and may not carry sufficient conviction with the financial markets to allow the needed near-term reduction in interest rates.

As at least a partial alternative, consideration should be given to a modified procedure under which future tax reductions currently scheduled to go into effect in FY 1984 and beyond would only become operative on the basis of explicit Congressional and Executive

action, following careful analysis of the deficit outlook. For example, the existing law with respect to initiation of so-called "tax indexing" in FY 1985 might be changed to provide that such indexing would only begin if, prior to the start of FY 1985, Congress and the President made an affirmative decision that this would be appropriate in the light of the budgetary situation at the time.

5. Although forceful actions to reduce deficits will be of critical importance for the overall fiscal program, attainment of the national policy objectives I have outlined will also require that other aspects of the program are conducive to substantially increased investment in productive private plant and equipment. Moreover, adequate budget resources should be devoted to longer-term investment in public infrastructure and in human resources that is needed for sound economic growth. There is also a case for limited use of temporary job creation, training and retraining programs that are specifically geared to the groups hardest hit by continued high unemployment, including particularly youth, dislocated workers, and the long-term unemployed. While most of these programs would entail extra near-term budgetary costs, they need not add to the long-term deficit and inflation risk if they contain built-in features that will automatically lead to their termination when the economy has moved closer to full recovery. Detailed testimony on the issues involved in designing temporary as well as longer-term jobs and training programs was presented by Mr. Franklin A. Lindsay, Vice Chairman of CED, before the House Education and Labor Committee on February 23.

CED continues to be strongly in favor of a longer-run objective of gradually reducing the total share of GNP taken by taxes, in balance with a phased reduction in government spending as a share of GNP. The recommendations for tax increases in this letter are cited only very reluctantly since we are concerned that tax increases not become a mechanism through which Congress and the Executive avoid their responsibilities for curtailing excessive growth of government spending.

Budget Process Issues

As you know, a Subcommittee of CED under the chairmanship of the Honorable Elmer Staats, former Comptroller General of the United States, is currently undertaking an intensive study of budget concepts and processes. (A list of Subcommittee members and advisers is attached.) The report of this Subcommittee will be presented to CED's full Research and Policy Committee for consideration and preliminary approval at a meeting in mid-May and a final CED policy statement is expected to be issued in early June following a mail vote.

While a final report on our recommendations is still some time off, you may be interested in knowing some of the preliminary conclusions that have been reached by the CED Subcommittee on Budget Concepts and Processes to date. They include the following:

1. Strong support of the present Congressional budget process and further strengthening of that process are a vital precondition for sound and effective fiscal and economic policies.

2. Continued adherence to the unified budget concept is of key importance for the efficacy and credibility of the budget process. The Subcommittee is opposed to proposals for taking Social Security, capital investment, or other items out of the unified budget. It does, however, believe that it would be useful to place greater focus on "capital budgeting" within the unified budget. At the same time, activities now classified as "off-budget" should be moved back into the unified budget.

3. Credit transactions included in the "credit budget" should be subject to regular budget process disciplines, including binding ceilings on a multi-year basis. Considerable progress in this direction was made last year. This procedure should be incorporated into law to ensure that it will remain a regular feature of the budget process. At the same time, additional procedures are needed to permit more direct comparisons and tradeoffs between regular expenditures in the unified budget and subsidy elements of federal credit programs, along lines that will be more fully spelled out in the final CED report.

4. Special tax provisions that serve functions similar to direct government outlays should be brought under closer surveillance by the budget process, primarily through joint evaluations of those special tax provisions and regular outlays that are generally recognized within the Congress as serving comparable purposes. Because of the conceptual and practical problems involved in adding up such tax provisions, however, no attempt should be made to subject the total of these tax provisions to binding limits under the budget process.

5. The Senate and House Budget Committees should make a major effort to arrive at common economic assumptions in conjunction with the development of the First Concurrent Budget Resolution. Preparation of these assumptions should remain the clear responsibility of these committees and should not be turned over to an outside group of experts, as some have proposed. At an appropriate stage of the budget process, the Administration should, as a regular practice, make available a recalculation of its budget projections on the basis of Congress' First Concurrent Budget Resolution.

6. The First Concurrent Budget Resolution should be made binding -- thereby eliminating the need for a mandatory Second Resolution -- with an option for the Congress to add one or more additional resolutions if this appears necessary.

7. Points of order in connection with the budget resolutions should be tied to committee and subcommittee spending allocations, as well as to totals.

8. As an alternative to an abrupt shift to a two-year budget cycle, the Subcommittee favors active experimentation with extending the time periods covered by various authorizations, appropriations, and other funding arrangements, based on the time spans that are most suitable to the types of activities involved.

I hope that these views will be helpful to you and your Committee.

Senator HEINZ. Thank you very much.

Mr. Semple, we want to give you the conciseness and brevity award. We congratulate you and we thank you.

Mr. SEMPLE. You are welcome.

Senator HEINZ. Mr. Dyer, I may have missed it in your testimony. Do you support or oppose the administration's proposal to convert some or all of the FSC program to a voucher program?

Mr. DYER. I think we need a little more study, but basically I believe that that program is not very valuable in the marketplace where it would be used.

Senator HEINZ. Mr. Kay mentioned that one reason he would not be terribly enthusiastic about that idea is that we have a program called the targeted jobs tax credit program. If FBS recipients were eligible under TJTC and if refundability were granted it would be almost identical to what the President has proposed. The President proposes a cash subsidy payment in lieu of tax credit with refundability for a new targeted group, namely those on unemployment compensation.

Refundability, unlimited refundability, is probably not something that the Congress would go along with, but permitting a carry-forward or carry-back the way we do for the ITC might do the job just about as well.

My question to Mr. Kay is: Would you favor, in effect, broadening the target job tax credit along the lines suggested as an alternative to what the President proposed? Would that be effective?

Mr. KAY. Mr. Chairman, I do not believe so. The experience that I have seen with the targeted jobs tax credit to a great extent is that many employers have not changed their employment practices because of the targeted jobs tax credit. What they are doing is continuing the same practice they have always had, but now, in the process of employment, they ask the person if they qualify.

If they do, they go ahead and obtain the tax credit. In other words, they are not going out and necessarily shopping or trying to hire these people, which is the goal of it. They are just using it to the extent that it is available without actually making any changes.

Senator HEINZ. Can you explain why employers do not go out and look for people that way?

Mr. KAY. I would let Mr. Dyer comment.

Senator HEINZ. I will get back to him in 1 minute. Do you have a view as to why the employers do not more aggressively go out to get people who are vouchered?

Mr. KAY. The exposure I have had is situations where the employer is in a given area. The applicants coming in are adequate—the number of applicants coming in to fill the jobs they have—and then it is a matter of picking the ones they are going to hire. If they qualify, they use them.

Senator HEINZ. Mr. Dyer, with your other hat on at Federated I am sure you and I are both aware that Federated has been a very aggressive user of the targeted jobs tax credit program. Do you think that expanding its use for this purpose would be advisable or not?

Mr. DYER. I do not think it would affect it one way or the other particularly. I do not think it would enhance the employment of

the unemployed. I think the targeted jobs program is effective in areas were those particular type of applicants are available and meet qualified job openings.

I think Mr. Kay expressed it very well. that employers in general, as well as Federated, look at each job opening for the best qualified applicant. If that applicant happens to be also a person who qualifies for the targeted job program, then you take advantage of it. But I do not think that it encourages it in particular.

Senator HEINZ. Both of you—actually all of you—paint a pretty depressing picture about how we can target in on these people who have been on unemployment compensation for an extended period of time.

Mr. DYER. I think that what we have said is that the best thing is to get them reemployed by making sure they have adequate training for jobs that are available.

Senator HEINZ. But the problem is, we have never been able to figure out how to do that terribly well, even though we have high hopes for the Quayle-Kennedy bill.

Mr. DYER. Retraining is probably more important than anything else.

Mr. OXFELD. May I?

Senator HEINZ. Yes; would you identify yourself, please?

Mr. OXFELD. I am Eric Oxfeld, employee benefits attorney for the chamber and staff to the Chamber's Counsel on Unemployment Compensation.

The chamber is generally supportive of the concept of the targeted jobs tax credit. The problem we have with both the President's proposal and making FSC claimants a target group under TJTC is that you create a premium for hiring someone who is long-term unemployed, and there is danger there.

An unscrupulous employer—there may be some, hopefully not among our members—might say to an applicant who comes in in the 37th week of unemployment and would not be eligible for this credit, come back and see me in 3 weeks when I can get a credit for hiring you. What that does is give the less long-term unemployed an incentive to stay unemployed longer in order to make themselves more attractive to be hired. In any program to help the long-term unemployed we urge you to try to avoid that kind of incentive.

Senator HEINZ. Thank you very much.

I would like to make one observation in particular for my friend and colleague Senator Chafee's benefit. I was not at the hearing we held here Friday a week ago when these unemployment issues surfaced, and I believe there was some expression made at that hearing, John, where it was contended that the targeted job tax credit is not effective and does not help anyone.

The Treasury Department has estimated that in 1985 there will be a $750 million revenue loss associated with that program, which means that program will be helping 400,000 people, at a minimum, by their estimates. That would be the least that program would be helping. So it does affect a large number of people.

I hear what you are saying about the difficulties, and you make a good point, Senator Chafee.

Senator CHAFEE. Thank you, Mr. Chairman. I want to thank the panel. I think it was Mr. Kay, who said that he was opposed to the Federal Government making requirements on the States for extended unemployment compensation. Is that correct?

Mr. KAY. I said it. I believe Mr. Dyer would agree with me. We are opposed to Federal standards per se.

Senator CHAFEE. I find that unusual. After all, since we are providing the money, shouldn't we be permitted to make certain requirements? As you have stated we must watch these requirements carefully because if we require a simple percent of reduction we are hurting the State which has been running a tight ship and not hurting the one who has been perhaps excessive, if you could use that word.

So I think that we have a perfect right to mandate some standards.

Mr. KAY. We agree with the fact that Congress has a very definite need to encourage the States to tighten their ships. I guess when I refer to Federal standards I am thinking along the lines that we would not like Congress to come along and say a State cannot have a replacement rate greater than fifty percent, period, that every State must have that kind of replacement rate, or that every State cannot allow a claimant to draw more than 50 percent of his wages and benefits.

What I proposed was——

Senator CHAFEE. We have a vote on. It will interrupt matters a little bit. OK, go ahead.

Mr. KAY. What I proposed was really leaving the State the option. They could either meet a test based upon a percentage reduction, if they met certain criteria, they would also meet it. That was a shopping list approach on the criteria.

Senator CHAFEE. Thank you, Mr. Semple. I think the tendency in Congress had been to just extend programs and really not take a deep look at what we are attempting to accomplish. All of you seem to indicate a concern that unemployment compensation, while clearly needed by some people, does not really help their long-term problem which is to learn new skills and new trades.

It is, as I said before, a challenging problem that we have before us. Thank you all very much. We appreciate your coming.

Now, Miss Vernon, Senator Dole wanted to be here while you testified and he is unavailable. I wonder if we could take the other panel.

Miss Hackett, are you on a panel, or are you alone?

Ms. HACKETT. There are two of us, Senator—only one speaker, Senator.

Senator CHAFEE. I wonder if Ms. Vernon could wait and we will take Miss Hackett. The last shall be first though the first shall not be last. [Laughter]

Ms. Hackett, we welcome you.

STATEMENT OF MARY C. HACKETT, DIRECTOR, RHODE ISLAND DEPARTMENT OF EMPLOYMENT SECURITY, ACCOMPANIED BY JOHN A. CANFIELD, COMMISSIONER, WEST VIRGINIA DEPARTMENT OF EMPLOYMENT SECURITY, AND PRESIDENT-ELECT, ICESA, WASHINGTON, D.C.

Miss HACKETT. Thank you.

Senator CHAFEE. We are glad you are here. You are certainly widely experienced in this field. Why don't you proceed?

Mr. CANFIELD. Mr. Chairman, I am obviously not Miss Hackett, but——

Senator CHAFEE. I recognize that.

Mr. CANFIELD. My name is Jack Canfield. I am the administrator of the West Virginia agency and the president-elect of the Interstate Conference of Employment Security Agencies, which is the organization of all of the administrators from around the country.

With us is Cheryl Templeman, who is with the ICESA staff here in Washington.

Senator CHAFEE. You have 5 minutes, Mr. Canfield.

Mr. CANFIELD. Miss Hackett will now give you a summary of our positions.

Senator CHAFEE. All right, Miss Hackett, go to it.

Miss HACKETT. Thank you very much, Senator Chafee. We would like to summarize our position on Federal supplemental compensation, on the use of the UI trust funds on training, on the exemption of the youth minimum wage from FUTA taxes, and the loan repayment.

Insofar as FSC is concerned, we support the extension of FSC beyond the current expiration date of March 31 because of the rate of unemployment and the number of people exhausting benefits remains high. We believe that FSC would be strengthened by modifying the work search requirements to allow the States to tailor requirements to meet local labor market conditions.

Senator CHAFEE. What do you mean by that? Give me an example.

Miss HACKETT. At the present time, the work search requirements on FSC require extensive and intensive work search. Local labor market conditions would prevail against that in some circumstances where claimants who have little resources are spending money for transportation to get to plants, sometimes the same plant in the same community day after day, causing all kinds of frustration on the part of the employer and the claimant.

So we believe that allowing the State agencies to tailor that to the needs and conditions prevailing in the local labor market would make for better administration and would make more sense.

Senator CHAFEE. Good. All right.

Miss HACKETT. We believe that the requirement that FSC recipients receive the lesser of the number of weeks available in either the agent or liable State should be repealed and the claimant should be entitled to the number of weeks available in the liable State.

We believe that converting FSC benefits to job vouchers would not stimulate new jobs, would give FSC recipients a competitive

disadvantage over those who have exhausted benefits, and would be most susceptible to abuse.

We do not support the administration's proposals to require 30 weeks of work in the base period and deny benefits to those who have established good cause for leaving their jobs.

Insofar as the use of the unemployment insurance trust funds for training, we have heard this morning of the financial condition of so many of the State trust funds that we feel that that in itself makes this proposal most impractical at this time. We also believe that using that money for training is against the purpose for which unemployment insurance trust funds were put into being in the first place and that it would also be quite incompatible with the experience rating structure in the State laws.

We also believe, insofar as exemption of the youth opportunity wages from unemployment and insurance taxes is not in the best interest of the country at this point. We believe that anyone who has the risk of involuntary unemployment should be protected by unemployment insurance.

Insofar as the loan repayment conditions are concerned, we know that economic conditions have certainly deteriorated since the passage of the 1981 Budget Reconciliation Act, and we have large liabilities now for interest and the cap requirements have become very difficult for many of the States to meet.

We believe that both the cap provisions and the imposition of interest should be reexamined in the light of this deterioration of the economy. Any changes should certainly maintain incentives for solvency in the States, but provide some relief for those States that have taken responsible action.

That summarizes my remarks. I would respectfully request that our written statement be made a part of the record.

Senator CHAFEE. It certainly will be.

[The prepared statement of John A. Canfield follows:]

PREPARED STATEMENT OF JOHN A. CANFIELD

My name is John A. Canfield. I am Commissioner of the West Virginia Department of Employment Security and President-elect of the Interstate Conference of Employment Security Agencies, Inc. (ICESA). With me today to present our views on the unemployment compensation issues before this Committee is Mary C. Hackett, Director of the Rhode Island Department of Employment Security.

ICESA is the organization representing administrators of unemployment compensation laws and public employment offices in the 50 states, the District of Columbia, Puerto Rico and the Virgin Islands. The federal-state unemployment insurance system has a major role in many of the Administration's proposals for addressing unemployment, specifically, the extension and restructuring of the Federal Supplemental Compensation program, the use of state unemployment trust funds for training costs, and the exclusion of youth opportunity wages from unemployment taxes. We would also like to discuss the conditions under which loans are made to states for unemployment benefit payments. Thank you for this opportunity to present our views.

FEDERAL SUPPLEMENTAL COMPENSATION

We urge you to extend the Federal Supplemental Compensation program beyond the current expiration date of March 31, 1983. The economic conditions which brought about this program continue to exist, with unemployment predicted to average more than 10 percent for the remainder of this year. The number of people who have used all of the regular state UI benefits available to them is also at an alarming level; about 80,000 to 90,000 are exhausting regular benefits each week.

We believe that the FSC program and the Extended Benefit program could be strengthened by modifying the work search requirements. Under the current law, recipients of FSC are required to make an "active and sustained search for work" each week for which benefits are claimed. This means that the individual must visit the place of business of several prospective employers each week and file an application or make an inquiry for work. These requirements are inappropriate in areas where literally no jobs exist. FSC recipients must spend money to travel to companies each week when they know the firm is not hiring, and where they have previously filed applications. In many areas there are only two or three major employers, and when they are hiring the word gets around quickly. We have all seen pictures of hundreds of people lining up to apply for a handful of job openings.

In light of these constraints, we urge you to allow states more flexibility in determining work search requirements. States should be allowed to determine what constitutes an appropriate work search for FSC recipients, based on local labor market conditions.

Another change we would urge you to make is repeal of the recently enacted amendment to the FSC program which requires that individuals claiming FSC on an interstate basis receive either the number of weeks available in the state where they live or where they are entitled to benefits, whichever is less. In other respects an individual's entitlement to benefits is determined by the laws, regulations and policy of the state where his wage credits were earned. In fact, states are prohibited by federal law from treating an individual who claims benefits

on an interstate basis differently from those who remain within the state's borders. The five tier FSC program, with the possibility of movement either up or down by either the agent or liable state makes administration of this provision extremely complicated and costly.

The Administration's proposal for extending FSC includes qualifying and eligibility requirements that are more stringent than the current program. That proposal would require a minimum of thirty weeks of work to qualify for benefits. It would also deny benefits to those who voluntarily quit their jobs, whatever the reason, or who were fired for good cause.

Thirty weeks of work in the base period is a more stringent minimum qualifying test than any state currently requires for regular state benefits. It is a 50 percent increase over the current requirement of 20 weeks of work. There is no logic in setting qualifying requirements so high. Federal Supplemental Compensation is a temporary program enacted in response to catastrophic levels of unemployment. The payment of these benefits is justified by the poor condition of the job market and should not require stronger proof of labor force attachment. In fact, many long time workers in industries where there have been frequent lay offs during the last several years may not meet this requirement. We urge you to reject this proposal.

One of the principles of unemployment insurance is that benefits are paid to those who are unemployed through no fault of their own. This concept is applied to those who voluntarily leave employment by determining whether or not they had good cause for doing so. Some examples of good

cause for quitting a job would include: working conditions which violate health codes, sexual harrassment, and violation of the employment contract by the employer. The Administration's proposal to deny benefits to those who have established good cause for leaving a job would violate this basic tenet of unemployment insurance. The current FSC program prohibits the payment of benefits to those who quit jobs without good cause and to those who were fired for misconduct. We urge you to consider the unfairness of the Administration's more stringent proposal to deny benefits to those who have established good cause for voluntarily leaving employment.

I would like to make one final comment on FSC, regarding the administrative financing of the program. The current FSC legislation authorizes the use of general revenues for the administrative cost, as well as the benefit cost, of the program. However, federal unemployment tax funds, not general revenues, are being used for administrative costs. This creates a further strain on already limited resources. The Department of Labor estimates that federal unemployment tax revenues designated for administration of the system will be depleted in FY 1984 and will require advances from general revenues. We urge you to authorize the use of general revenues for administration of FSC and to support appropriations for that purpose.

Job Vouchers

The Administration's job voucher proposal would permit FSC recipients to convert their benefit entitlement to vouchers which could be offered to prospective employers as a wage subsidy. Each voucher would be worth one-half the individual's weekly benefit amount and could be paid for double

the period of the individual's FSC eligibility. The employer could use the vouchers as a tax credit first against his unemployment taxes and then against his federal income taxes.

This proposal would presumably encourage employers to hire FSC recipients by defraying the cost of their employment for four to eight months. Using Federal Supplemental Benefits as a wage subsidy would make it more attractive for employers to hire FSC recipients, but it would give them a competitive advantage over other unemployed workers who have exhausted all benefits available to them. If the federal government wishes to influence employers' hiring decisions, it seems unfair to influence them in favor of those who still have some income rather than those who have none.

Employers will hire new workers with or without a subsidy only if there is work for them to do. If there is no market for the employer's goods or services, he is not likely to expand his workforce. This raises the necessity for policing such programs to ensure that the employer does not replace his present workforce with workers who bring a subsidy and that these workers are not recycled every six or eight months as soon as the subsidy period is over. The Administration's proposal does not prohibit these practices. The regulations, certifications, determinations and penalties necessary to prevent abuse would be mind boggling.

YOUTH MINIMUM WAGE

The Administration's proposal for a youth opportunity wage includes a provision which would exempt those wages from federal unemployment taxes. This is intended to provide an additional incentive for hiring younger

workers. We believe that all workers who are subject to the threat of involuntary unemployment need the protection of unemployment insurance.

USE OF UI TRUST FUNDS FOR TRAINING

One of the Administration's proposals for aiding dislocated workers is to allow states to use up to two percent of state unemployment tax receipts for training or relocation of unemployed workers. The need for training and reemployment assistance for dislocated workers certainly exists, however, tapping UI tax receipts to fund these activities is neither practical nor desirable.

First, the financial condition of the state trust funds makes this proposal impractical. Over thirty states have had to borrow from the federal loan account just to meet benefit obligations. The states with the most dislocated workers are among the larger borrowers. The decline of manufacturing, primarily in the Midwest, coupled with the severe recession have placed an enormous burden on state UI trust funds in those states. Employers in those states are already facing higher employment taxes, both state and federal taxes, in order to reduce the debt and interest obligations already incurred.

Another aspect which should be considered is that states already have the ability to finance training through a payroll tax if they choose to do so. California has recently enacted legislation which reduces unemployment taxes and adds a 0.1 percent payroll tax to finance an employment training fund. That fund is limited to $55 million; any excess will go into the UI trust fund. California is able to do this because its UI trust fund is

healthy. Other states may wish to establish similar programs after loans are repaid and their trust funds are solvent. However, trust fund solvency is many years away for a number of states.

It should be noted that California's training fund is being financed by a separate flat tax of 0.1 percent rather than from the UI trust fund where the tax rate an employer pays is determined to a great extent by his experience with unemployment. All states have some degree of experience rating in their UI tax system. This simply means that an employer's tax rate bears some relationship to the amount of benefits collected by his former employees. In order to maintain an experience-rated tax structure, it would be necessary to maintain payroll taxes for training separate from the UI trust fund.

FEDERAL LOANS TO STATES FOR UI BENEFITS

The Omnibus Budget Reconciliation Act of 1981 made two changes in the conditions under which federal loans to states for UI benefits are granted. First, states with overdue federal loans would be permitted to limit the automatic FUTA credit reduction if certain requirements were met, and second, interest would be charged on loans made after April 1, 1982. Prior to that date loans were interest-free.

FUTA Offset Credit Reduction

If a state's loan is not fully repaid within two years, the FUTA tax collection mechanism is automatically set into motion which results in escalating FUTA credit losses of 0.3%, 0.6%, 0.9%, etc. until outstanding loans are fully repaid. These tax credit losses are equivalent to a net increase in FUTA taxes.

In response to the difficulties of debtor states who were faced with the triple objectives of meeting current benefit payments, restoring fund solvency, and repaying existing loans, the loan repayment process was amended by the Omnibus Budget Reconciliation Act of 1981. Provisions of this Act limit or "cap" the amount of the tax credit loss for those states satisfying certain UI financing and fund solvency criteria. For a state qualifying for the cap, the annual tax credit reduction is limited to 0.6 percent, or the rate that was in effect for the state for the preceding calendar year, whichever is higher.

The cap provisions were designed to give states additional time to enact belt-tightening administrative and legislative changes needed to achieve solvency. By limiting the net federal tax credit loss to 0.6 percent, states have a better opportunity to reform their own benefit and financing programs. These provisions lengthen the repayment period, but do not reduce a state's total liability.

In order to qualify for the cap on the FUTA penalty tax a state must demonstrate that:

1. The net solvency of its UI system has not diminished;
2. There have been no decreases in its unemployment tax effort;
3. Its average tax rate for the calendar year equals or exceeds its average benefit cost rate for the prior five years; and
4. The outstanding loan balance as of September 30th of the calendar year is not greater than on the third preceding September 30th.

The criteria for obtaining the cap become increasingly more difficult to satisfy. In 1981 and 1982, only criteria (1) and (2) needed to be satisfied for cap eligibility. Beginning in 1983, however, all four criteria must be satisfied.

Interest Charges

Prior to April 1, 1982, no interest was charged on federal loans to state unemployment trust funds. The decision to charge interest was based on the arguments that it would provide an incentive to states to maintain solvent trust funds and that the federal government must pay interest on the funds it loans to the states.

Of the $11.7 billion in loans to states, interest is being charged at a rate of 10 percent on about $4.2 billion. Nineteen states have interest bearing loans outstanding.

Recommendations for Changes to Interest and Cap Requirements

At the time the loan repayment provisions of the Omnibus Budget Reconciliation Act of 1981 were agreed upon, the economic projections indicated that most states would not continue to borrow, or would borrow relatively small amounts. It also appeared that states would be able to meet the requirements for limiting the offset credit reduction to 0.6 percent. The actual economic conditions in the last 18 months have been far worse than the assumptions that were in effect when this legislation was adopted. The result has been that many states are incurring large interest obligations, and few states will be able to meet the cap requirements for 1983.

We believe that the conditions of borrowing and repayment should be reexamined in light of the deterioration of the economy which was not anticipated when the interest and cap provisions were agreed upon. This legislation was intended to provide incentives for solvency and to allow states to stretch out repayment of loans; however, this intent has been subverted by the current recession.

Changes should be made in the loan repayment provisions which maintain incentives for states to restore solvency but provide relief for those that have taken responsible action. States that have made substantial steps toward solvency should be relieved from interest charges and allowed to limit the FUTA offset credit reduction. Some suggestions for criteria which demonstrate fiscal responsibility might include the following: no net decrease in solvency; no reduction in tax effort; changes in state law which increase tax revenues by "X" percent; a limit or reduction in benefits if the state's benefit structure is higher than the national average; and no new net borrowing unless the states average tax rate is higher that the national average by, for example, 30 percent.

This list is by no means exhaustive; however, we urge you to carefully consider the concept of providing some relief from interest and escalating FUTA credit reductions in states where the maximum effort possible is being made to restore solvency and repay outstanding loans.

Thank you for the opportunity to present our views to you today regarding these issues which are crucial to the unemployment insurance system. I will be happy to answer any questions you may have.

Senator CHAFEE. Governor Thompson wanted the retention of the cap. I always use the term "cap" in connection with the cap on the——

Miss HACKETT. FUTA tax escalation.

Senator CHAFEE. Yes.

Miss HACKETT. Right.

Senator CHAFEE. You mean the requirements that have to be met to keep the cap?

Miss HACKETT. Exactly, that is right.

Senator CHAFEE. I see. I must get over to vote. I will ask Senator Heinz, if he comes back in the interim, just to hold things until I get back, I have a couple of questions I want to ask you.

Miss HACKETT. We will be happy to wait, Senator.

Senator CHAFEE. We will be in recess here and I will be right back.

[Recess]

Senator HEINZ. Our hearing will resume. I want to say to my witness I regret I was not here for your testimony. I gather you have given it to Senator Chafee. Senator Chafee wants to engage in some discussion with you.

I would like to ask if you would step down from the witness table temporarily so we can hear our next panel of witnesses and proceed, and then I would like to be able to recall you when Senator Chafee returns, as he will.

Miss HACKETT. Thank you very much. We will be happy to do that, Senator.

Senator HEINZ. All right. Our next panel is Robert McGlotten, Mr. Sheldon Friedman, and that does not look like Bob McGlotten. That looks like Bert Seidman. Bert, you have never been here before, I know. Welcome again.

STATEMENT OF BERT SEIDMAN, DIRECTOR, DEPARTMENT OF SOCIAL SECURITY, AFL-CIO, ACCOMPANIED BY ARLEEN GILLIAM, ASSISTANT DIRECTOR, SECURITY

Mr. SEIDMAN. Thank you, Senator. I am Bert Seidman, director of the Department of Social Security of the AFL-CIO and with me is Arleen Gilliam, assistant director of the same department.

I have a statement, attached to which are several statements adopted last week by the AFL-CIO executive council, and I would appreciate it if my statement and that of the executive council could be included in the record.

Senator HEINZ. Without objection, so ordered.

Mr. SEIDMAN. Mr. Chairman, we appreciate the opportunity to present the views of the AFL-CIO on extension of Federal supplemental compensation and other proposals for changes in the unemployment insurance program.

Of the 11.4 million workers officially counted as unemployed in January, less than half are receiving unemployment compensation benefits. Almost 5 million workers exhausted their regular and extended benefits in fiscal 1982. Millions of long-term workers are not even eligible for extended benefits as a result of the harsh restrictions on the EB program enacted in 1980 and 1981.

Economic forecasts, including those of the administration, project unemployment levels of over 10 percent for the remainder of this year, and close to 10 percent in 1984. Workers who lose their jobs face a long, painful spell without work, and the prospect of losing their unemployment benefits before they find employment.

Unless the FSC program is extended beyond its current expiration date, March 31, benefits will cease immediately, even though many will not have received the maximum number of weeks to which they are entitled. Unemployed workers who would qualify after that date would receive no benefits at all.

To prevent dire suffering of millions of long-term workers and their families, the AFL–CIO encourages the Congress to extend the current program of FSC for at least 1 year beyond its current expiration date. But a simple extension of the program is not enough.

The AFL–CIO has long advocated the establishment of a permanent supplemental benefits program which would provide benefits of at least 65 weeks in all phases of the business cycle for the long-term unemployed, and we urge you to enact legislation to accomplish those objectives.

We strongly urge that additional weeks of benefit be assured without regard to State trigger levels and that they be funded from general revenues and, at the very least, Mr. Chairman, we urge you not to accept the cutback in duration of benefits from the level of the subcommittee's recommendation, which is provided in the bill reported out yesterday by the House Ways and Means Committee.

The administration is proposing an extension of FSC, but with drastic modifications which we strongly oppose. Under the administration's proposal, unemployed workers entitled to FSC between April 1 and September 30, 1983, would be given the option of receiving benefits or receiving vouchers to subsidize employers who hire them.

Between October 1, 1983, and March 31, 1984, such workers would have no choice. They could receive only vouchers and no benefits. Under the voucher scheme, employers could simply lay off their current workers, substitute workers holding vouchers, and retain these new workers only until the voucher expires.

This is nothing more than a system of job rotation and we heard just a moment or so ago that the employers are not enthusiastic about this program either. The UC system is designed to provide partial replacement of lost wages to jobless workers while they seek suitable employment commensurate with their skills and not to provide wage subsidies to employers. The AFL–CIO urges Congress to reject the administration's attempt to destroy the very foundation of the UI program.

The administration also proposes to require unemployed workers to have 30 weeks of qualifying employment in order to be eligible for FSC. We are strongly opposed to the imposition of any additional requirements that further restrict the availability of FSC.

The administration would deny FSC to workers who "voluntarily" leave their jobs or are dismissed by their employers for any reason other than lack of work or physical disability. This would be a terrible imposition on unemployed workers and we strongly oppose this provision.

Another administration proposal would impose a subminimum wage of $2.50 per hour and then deny unemployment insurance to workers who receive such a subminimum wage. We are opposed to both the subminimum wage and the denial of unemployment compensation to any otherwise entitled workers.

Mr. Chairman, we are convinced that unemployment is America's No. 1 economic problem. Organized labor supports legislative efforts to establish jobs and put people back to work. This is what we favor first and foremost, but until the goal of full employment is reached, FSC is necessary. It should not be weakened, as the administration has proposed. Instead, it should be extended for at least 1 year and should provide at least 65 weeks of UC benefits financed by general revenues.

Thank you, Mr. Chairman.

Senator HEINZ. Thank you, Mr. Seidman.

[The prepared statement of Mr. Seidman follows:]

STATEMENT OF BERT SEIDMAN
DIRECTOR, DEPARTMENT OF SOCIAL SECURITY
AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS
BEFORE THE SENATE FINANCE COMMITTEE
ON UNEMPLOYMENT COMPENSATION ISSUES

March 3, 1983

We appreciate the opportunity to present the views of the AFL-CIO on extension of federal supplemental compensation and other proposals for changes in the unemployment insurance program.

Not since the Great Depression of the 1930's have so many workers been without jobs. The economic policies of the Reagan Administration have resulted in economic disaster for unemployed workers. Millions of jobs have been wiped out since the Reagan recession began. Thus, the search for a job for many if not most unemployed workers is a fruitless effort.

For January, the Bureau of Labor Statistics reported that 11.4 million workers were without jobs with 10.4 percent of the labor force officially counted as unemployed. The apparent drop of 600,000 in January in the official unemployment figure was not real since it is exactly balanced by the 600,000 discourages workers who dropped out of the labor force. Forty percent of these jobless workers had been unemployed for 15 weeks or longer. Of these, 2.7 million workers had been without work for more than 6 months. The average duration of unemployment jumped from 18 weeks in December 1982 to 19.4 weeks in January 1983. In January 1982, the average duration of unemployment was 13 weeks. An additional 8.6 million workers either were too discouraged even to search for work or had accepted part-time employment because they were unable to find full-time jobs. Thus, at a minimum, 20 million American workers and their families are experiencing severe hardship and economic deprivation.

The protections of an adequate and equitable unemployment insurance system are essential for these unemployed workers and their families. Yet, of the 11.4 million workers officially counted as unemployed, less than half are receiving unemployment compensation beneifits. Almost 5 million workers exhausted their regular and extended benefits in fiscal

year 1982. Millions of long-term workers are not even eligible for extended benefits as the result of the harsh restrictions on the extended benefit program enacted by Congress in 1980 and 1981. Economic forecasts, including those of the Administration, project unemployment levels of over 10 percent for the remainder of this year and close to in 1984. Workers who lose their jobs face a long and painful spell without work and the prospect of losing their unemployment benefits long before they find employment.

The temporary program of federal supplemental benefits which became effective September 12, 1982 has provided some income protection for hundreds of thousands of long-term jobless workers. With the extension of weeks under the provisions of the Surface Transportation Assistance Act of 1982, unemployed workers who have exhausted either regular or extended benefits are eligible for 8, 10, 12, 14 or 16 weeks of federal supplemental benefits, depending on the state from which they are receiving benefits. Thus, it is possible for some unemployed workers to receive 55 weeks of benefits if both extended benefits and 16 weeks of federal supplemental benefits are available in their states. The maximum duration of benefits in states where only 8 weeks of federal supplemental benefits are available, however, is only 34 weeks.

While establishment of the program of federal supplemental benefits was a much needed step in the right direction, additional steps must be taken immeditely to prevent millions of long-term jobless workers and their families from being deprived of all income. As this recession and accompanying high rates of unemployment continue, more and more workers are exhausting their regular and extended benefits and, therefore, need the income protection provided by federal supplemental benefits. Unless the program is extended beyond its current March 31, 1983 expiration date, benefits will cease immediately even though many will not have received the maximum number of weeks to which they are entitled. Unemployed workers who would qualify after that date will receive no benefits at all. To prevent dire suffering of millions of long-term jobless workers and their families, the AFL-CIO urges Congress to extend the current program of federal supplemental benefits for at least one year beyond its current expiration date.

A simple extension, however, is not enough. The income protection provided by the program is inequitable in that unemployed workers are receiving benefits of varying duration, depending upon where they happen to work or live. A federal program of unemployment compensation benefits, financed from general revenues, must protect unemployed workers equally. This objective cannot be accomplished by relating benefit duration to state insured unemployment rates which always have had serious defects.

The AFL-CIO has long advocated the establishment of a permanent supplemental benefit program which would provide benefits for up to at least 65 weeks in all phases of the business cycle for the long-term unemployed. We urge you to enact legislation that would provide at least 26 weeks of federal supplemental benefits in addition to the current 39 week maximum provided under the regular and extended benefits program. We strongly urge that additional weeks of benefits be assured without regard to state trigger levels and that they be funded from general revenues. The House Budget Committee staff estimates that in November 1982, the most recent month for which data are available, over a third of a million unemployed workers exhausted federal supplemental benefits. No doubt, hundreds of thousands more long-term jobless workers have exhausted these benefits since November. Unless the AFL-CIO proposal of 65 weeks is adopted, these workers will receive no aid whatsoever. That is why the added 26 weeks is so important.

Under the guise of providing jobs for unemployed workers, the Reagan Administration continues its attack on the unemployment compensation system which is already far from adequate. The Administration is proposing an extension of the federal supplemental compensation program but with drastic modifications which we strongly oppose. Under the Administration's proposal, unemployed workers entitled to federal supplemental compensation between April 1, 1983 and September 30, 1983 would be given the option of receiving benefits or receiving vouchers to subsidize employers who hire them. Between October 1, 1983 and March 31, 1984 such workers would have not choice -- they could receive only vouchers and no benefits. Under the voucher scheme, employers could simply lay off their current workers substitute workers holding vouchers and retain these new workers only until

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the voucher expires. This is nothing more than a system of job rotation. Displacing workers who already have jobs in order to provide temporary employment for long-term jobless workers does not lessen unemployment or the suffering it causes. In addition, the amount of benefits available to unemployed workers under the unemployment insurance program is very low. The average weekly benefit paid in the country is only $106, and in 28 states even lower. Thus, some employers would hire long-term jobless workers only for low-skilled, low-paying jobs regardless of their skills or previous work experience.

The unemployment compensation system is designed to provide partial replacement of lost wages to jobless workers while they seek suitable unemployment commensurate with their skills, not to provide wage subsidies to employers. The AFL-CIO urges Congress to reject the Adminsitration's attempt to destroy the very foundation of the unemployment insurance program.

The Adminstration also proposes to require unemployed workers to have 30 weeks of qualifying employment in order to be eligible for federal supplemental compensation. The AFL-CIO is strongly opposed to the imposition of any additional requirements that further restrict the availability of federal supplemental compensation for long-term jobless workers. Unemployed workers are already required to have 20 weeks of qualifying employment, or its equivalent, in order to be eligible for extended and federal supplemental benefits. Those who do qualify for these benefits despite this onerous requirement are then forced to accept jobs paying wages equal to their weekly benefit, or the minimum wage, whichever is higher. The 20 weeks of work requirement under present law is itself unnecessary and unfair and more than sufficient to demonstrate long-term attachment to the labor force. Adding an additional 10 weeks to a requirement that is already restrictive will result in denial of benefits to hundreds of thousands of long-term unemployed workers.

The Administration would also deny federal supplement compensation to workers who "voluntarily" leave their jobs or are dismissed by their employers for any reason other than lack of work or physical disability. This proposal is draconian. The unemployment compensation system is based on social insurance principles that establish entitlement to

unemployment insurance benefits for workers, unemployed through no fault of their own, who meet the qualifying requirements under state laws. These state laws impose penalties on workers, unemployed as a result of their own actions for a specific number of weeks or the duration of their unemployment. The states provide for hearing procedures available to workers who challenge such penalties. Under the Administration's proposal, workers who voluntarily leave their jobs for good cause, workers who are fired because they cannot meet production quotas, workers who are fired as the result of employer whim, etc., would be denied federal supplemental compensation benefits without a fair hearing. The AFL-CIO urges Congress to reject this punitive proposal.

We strongly oppose the Administration's proposal to misuse state unemployment insurance trust funds for training. These trust fund must be used exclusively for their intended purpose, the payment of unemployment compensation benefits to jobless workers. The near-depression levels of unemployment which are the result of the Reagan recession are severely straining these trust funds. States have been forced to borrow from the Federal Unemployment Account in order to meet benefit obligations. States should not be allowed to divert a percentage of UI tax receipts for training especially when reserves are inadequate to pay unemployment compensation benefits.

Yet another Administration proposal would impose a subminimum wage of $2.50 per hour during the summer months on young workers under the age of 22. The AFL-CIO has long been opposed to a subminimum wage for youth. Attached to my testimony is the statement by the AFL-CIO Executive Council adopted just last week that urges Congress to reject this proposal. The Administration's scheme would also require states to exclude these workers from coverge of unemployment insurance. The AFL-CIO is strongly opposed to this or any other negative federal standard that would exclude otherwise entitled workers from coverge of the unemployment insurance program.

The AFL-CIO is convinced that unemployment remains America's number one economic problem. Organized labor has consistently advocated and supported legislative efforts to establish jobs and put people back to work. We still favor this approach to solving the

problems of joblessness, but until the goal of full employment is achieved, the federal supplemental compensation program should not be weakened as the Administration has proposed. Instead it should be extended for at least one year and should provide at least 65 weeks of unemployment compensation benefits, financed by general revenues.

An adequate and effective unemployment insurance program is needed today more than ever before. It must be extended and strengthened, not weakened as the Administration has proposed. We urge you to reject the Administration's proposal so that unemployment insurance continues to protect jobless workers and their families from deprivation and suffering.

Statement by the AFL-CIO Executive Council

on

Minimum Wage

February 24, 1983
Bal Harbour, Fla.

Inflation has sharply eroded the value of the minimum wage. Since January 1978, when the Congress set the minimum wage at $2.65, the minimum wage went up in steps to $3.35 an hour -- an increase of 26 percent. But the cost of living has increased by 56 percent. To match the buying power of $2.65 an hour, the minimum wage today would need to be $4.14 an hour.

America's lowest-paid working families are suffering severe economic hardship and the loss of their purchasing power plays a part in deepening and prolonging the present recession.

Instead of urging an increase in the minimum wage to protect the neediest workers in America, the Reagan Administration has recommended a $2.50 an hour subminimum for workers under the age of 22 each year from May through September. A youth paid $3.35 an hour during the past two summers would be paid only $2.50 an hour this summer for the same work.

The subminimum proposed by the President would base a worker's wage on age, rather than on the value of the work performed. It would encourage the replacement of poor adult workers with subminimum wage youth, many of whom are from higher-income families.

The youth subminimum has been rejected many times, most recently by the Minimum Wage Commission in 1981. There is no evidence that such a scheme would increase job opportunities.

The AFL-CIO urges Congress to reject the President's proposal for a subminimum wage for youth and, instead, to take the minimum wage in the direction it should go: toward the restoration of the purchasing power lost by America's lowest-paid workers.

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Statement by the AFL-CIO Executive Council

on

Unemployment Compensation

February 28, 1983
Bal Harbour, Fla.

Of the 11.4 million American workers officially counted as unemployed, half are not receiving unemployment compensation. In contrast, three-fourths of the unemployed received benefits in February 1975 during the last recession.

Restrictions demanded by the Reagan Administration and imposed by Congress have gutted the extended benefit program. As the result of these cutbacks, more than three million long-term jobless workers will receive reduced unemployment compensation benefits or none at all during the current fiscal year. In most states, benefits are at abysmally low levels. To assure adequate and equitable protection of all unemployed workers, the AFL-CIO repeats its call for minimum federal benefit standards.

Some income protection is provided by the temporary program of Federal Supplemental Compensation for unemployed workers who have exhausted either regular or extended benefits. Unless it is extended, it will expire on March 31, 1983.

The Reagan Administration has proposed extension of FSC only until September 30, 1983, but with new onerous requirements and no lengthening of benefit duration. We urge removal of restrictions which have been imposed on extended benefits. The maximum benefit duration should be extended to at least 65 weeks and the FSC program should be extended for at least one year.

The AFL-CIO strongly opposes the Reagan Administration proposal to permit replacement of some federal supplemental benefits with vouchers which could be used as cash subsidies by employers to hire long-term jobless workers. Such employers could simply lay off their current workers, substitute workers holding vouchers and fire the new workers when the vouchers expire.

We consider the Administration proposal to use state unemployment insurance trust funds for training and relocation to be a misuse of funds which should be reserved to payments to jobless workers. We are equally opposed to proposals under consideration by Congress to allow lump sum payments of federal supplemental benefits to jobless workers if they use them for relocation and/or training, and to impose a training requirement as a condition for federal supplemental benefits.

FINANCING

Shrinking unemployment insurance trust funds have caused many states to borrow from the Federal Unemployment Account. Some states were in debt for previous loans and requirements recently imposed by Congress force them to pay interest on loans. This bleak situation has caused many states to impose their own restrictions on benefits in addition to the new federal restrictions.

To deal equitably with the financial burdens of the states and enable them to maintain or improve current benefits, the AFL-CIO urges Congress to enact legislation that would:

- reimburse all states from general revenues for their share of extended benefits and the excess cost of regular benefits during recessions.
- require states to repay loans and the interest on them only when state reserve funds reach 125 percent of the previous year's benefit payments, thus deferring loan repayments during periods of high unemployment and recession. Consideration also should be given to suspension of interest payments during this period of high unemployment and during subsequent recessions.
- assist states to meet extraordinary costs during high unemployment through a system of reinsurance, as recommended by the National Commission on Unemployment Compensation.

— require states to increase the taxable wage base to 65 percent of the average annual wage by 1990 and thereafter in steps to the level of the social security wage base.

FUTA TAX INCREASE

Congress has enacted an unjustified increase in the Federal Unemployment Tax (FUTA) to take effect January 1, 1985. If permitted to stand, it will have a devastating impact on employers who are not now subject to experience rating.

The AFL-CIO has long been opposed to experience rating because it is regressive and it provides an incentive to employers to resist unemployment compensation claims. Employers in declining industries with erratic or decreasing employment would be hit with the highest tax rates.

We, therefore, urge Congress to repeal the increase in the FUTA tax rate to 6.2 percent that will take effect in 1985.

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Background Paper

on

Unemployment Compensation

Millions of American workers are suffering severe job and income loss as the result of the highest levels of unemployment since the Great Depression. The protections of an effective and sound unemployment insurance system are essential for these unemployed workers and their families to forestall economic disaster. Yet, of the 11.4 million workers officially counted as unemployed, 5 out of 10 are not receiving unemployment compensation benefits. In February 1975, during the previous worst postwar recession, all but 24 percent of unemployed workers were receiving benefits.

While the official total unemployment rate (TUR) is 10.4 percent, the insured unemployment rate (IUR) is only 5.0 percent, a gap of over 5 percent. During the 1974-1976 recession, this differential averaged 3 percent. For some states, the gap between official unemployment and insured unemployment is even greater than the national average. In Michigan, for example, the differential is 10.5 percent and in Ohio, almost 9 percent. Since the IUR level in a state determines whether and for how long extended and supplemental benefits are paid, the artifically low level of the IUR is especially important.

Extended Benefits

Despite soaring levels of unemployment and joblessness of increased duration, Congress has enacted harsh provisions in federal law that have forced states to slash the protections of the unemployment insurance program, particularly for the long-term unemployed. The average duration of unemployment increased from 13 weeks in January 1982 to 19.4 weeks in January 1984 with 2.7 million workers without jobs for more than 6 months.

Since July 1981, over 5 million jobless workers have exhausted regular unemployment compensation benefits. Yet, many of these long-term jobless workers have been deprived of extended benefits as the result of cutbacks enacted by Congress.

In 1980, Congress imposed requirements on all states that have:

1. forced long-term jobless workers receiving extended benefits to take minimum wage jobs, regardless of skills and previous wage levels;
2. compelled a mandatory one week waiting period before any unemployed worker can receive benefits as a condition for a state receiving the 50 percent federal share of extended benefits;
3. reduced jobless benefits by 50 percent of the pension and social security benefits received by jobless workers;
4. denied extended benefits to any workers who "voluntarily" leave their jobs or are fired for "misconduct."

In 1981, Congress further restricted the extended benefits program by:

1. eliminating the national trigger. If the national trigger were still in effect, extended benefits would now be available nationwide since the insured unemployment rate for the country (5.0 percent) exceeds the 4.5 percent required prior to this change.
2. excluding extended benefits recipients from the calculation of the extended benefits trigger. Ignoring these recipients results in states triggering "on" extended benefit periods later and "off" earlier.
3. requiring a one percent increase in state triggers resulting in no extended benefits for long-term jobless workers until total unemployment in their state has reached catastrophic levels.
4. requiring 20 weeks of work to qualify for extended benefits, thereby denying the protection of the program to those who have the hardest time obtaining decent, secure jobs.

As a result of these most recent cutbacks, extended benefits are now available in only 23 states, and over 3 million long-term jobless workers will receive reduce extended benefits or none at all during this fiscal year. The only jurisdictions in which long-term jobless workers are receiving extended benefits are:

Alabama
Alaska
Arkansas
California
Idaho
Illinois
Indiana
Kentucky
Louisiana
Michigan
Mississippi
Montana
Nevada
North Carolina
Ohio
Pennsylvania
Puerto Rico
South Carolina
Utah
Vermont
Washington
West Virginia
Wyoming

Federal Supplemental Benefits

Under the provisions of the Tax Equity and Fiscal Responsibility Act of 1982, a temporary program of federal supplemental benefits, financed from general revenues, was established to provide 6, 8 or 10 weeks of benefits for jobless workers who exhaust either regular or extended benefits. The duration of benefits available in a particular state is based on the rate of insured unemployment. The duration of these benefits has been extended under a provision of the Surface Transportation Assistance Act of 1983 so that between 8 and 16 weeks of federal supplemental benefits are now available. The weeks of benefits available in each state as of January 1, 1983, are as follows:

State	Maximum Duration of FSC
Alabama	16 weeks
Alaska	16 weeks
Arizona	14 weeks
Arkansas	16 weeks
California	14 weeks
Colorado	10 weeks
Connecticut	10 weeks
Delaware	14 weeks
District of Columbia	10 weeks
Florida	8 weeks
Georgia	10 weeks

Hawaii	10 weeks
Idaho	16 weeks
Illinois	16 weeks
Indiana	14 weeks
Iowa	14 weeks
Kansas	14 weeks
Kentucky	16 weeks
Louisiana	14 weeks
Maine	14 weeks
Maryland	14 weeks
Massachusetts	14 weeks
Michigan	16 weeks
Minnesota	14 weeks
Mississippi	16 weeks
Missouri	14 weeks
Montana	14 weeks
Nebraska	8 weeks
Nevada	14 weeks
New Hampshire	8 weeks
New Jersey	14 weeks
New Mexico	14 weeks
New York	10 weeks
North Carolina	14 weeks
North Dakota	10 weeks
Ohio	16 weeks
Oklahoma	10 weeks
Oregon	16 weeks
Pennsylvania	16 weeks
Puerto Rico	13 weeks*
Rhode Island	14 weeks
South Carolina	14 weeks
South Dakota	8 weeks
Tennessee	14 weeks
Texas	8 weeks
Utah	14 weeks
Vermont	14 weeks
Virginia	8 weeks
Virgin Islands	14 weeks
Washington	16 weeks
West Virginia	16 weeks
Wisconsin	16 weeks
Wyoming	12 weeks

*Maximum duration of regular benefits is 20 weeks.

Unless Congress extends the program beyond its current expiration date of March 31, 1983, millions of long-term jobless workers will have no income protection whatsoever. Federal supplemental benefits will cease immediately even for jobless

workers who will not have received the maximum weeks of benefits to which they are entitled. Over 6 million jobless workers have exhausted regular and/or extended benefits since July 1981. Since all economic forecasts project unemployment levels at 10 percent or more for the remainder of this year, hundreds of thousands of jobless workers will be exhausting their benefits in the coming months.

The Reagan Administration has proposed extension of the program until September 30, 1983, but with new onerous requirements and with no lengthening of benefit duration. Under the guise of providing jobs, unemployed workers who are eligible for federal supplemental benefits would be given the option of receiving these benefits or obtaining vouchers, equivalent to the amount of benefits, to subsidize employers who hire them. Instead of job creation, such a system will result in nothing more than displacement of workers who already have jobs in order to provide temporary low-wage employment for long-term jobless workers. In addition, unemployed workers would be required to have 30 weeks of qualifying employment, instead of the 20 weeks required under present law, in order to be eligible for federal supplemental benefits. Adding an additional 10 weeks to a requirement that is already too restrictive will result in denial of benefits to hundreds of thousands of long-term unemployed workers.

Debt Repayment

Because of the depression levels of unemployment which are the result of the Reagan recession and states' failure to maintain adequate reserves during prosperous times, many states have been forced to borrow from the Federal Unemployment Account (FUA) in order to pay unemployment compensation benefits. Twenty-nine states will have oustanding loans from FUA by the end of April:

Alabama
Arkansas
Colorado
Connecticut
Delaware
Minnesota
Missouri
Montana
New Jersey
Ohio

District of Columbia
Idaho
Illinois
Indiana
Iowa
Kentucky
Louisiana
Maine
Michigan
Pennsylvania
Rhode Island
Tennessee
Texas
Utah
Vermont
Virginia
Virgin Islands
West Virginia
Wisconsin

Advances from the Federal Unemployment Account are no longer interest-free. States which borrow from this account between April 1, 1982 and December 31, 1987 will be charged interest at the rate of 10 percent. The interest must be paid from state general revenues, not from state unemployment insurance trust funds. In order to qualify for the cap on FUTA offset credit reductions, states with outstanding loans are precluded from taking any action which would result in a net decrease in the solvency of their UI trust funds. Thus, increased taxes in these states can be used only to restore solvency and not to increase benefits. If states choose to make loan repayments from their trust fund accounts instead of further reductions in the credit against the federal unemployment tax, they must increase the solvency of their trust funds by increasing taxes and/or reducing benefits.

Increase in the FUTA Tax Rate

Under the provisions of the Tax Equity and Fiscal Responsibility Act of 1982, an unjustified increase in the FUTA tax rate has been imposed which will have a devastating impact on certain industries and jurisdictions now exempt from experience rating. The total FUTA tax will increase from 3.4 percent to 3.5 percent for calendar years 1983 and 1984. On January 1, 1985 the tax rate will increase to 6.2 percent. Once the increase becomes effective for 1985, the 2.7 percent credit against the total tax rate will rise to 5.4 percent with a net effective FUTA tax of 0.8 percent.

Since it is assumed that the objective of this increase is to generate revenues for administration of the employment security system, an 0.1 percent increase of the net FUTA tax, and thus an increase in the total tax rate to 3.5 percent as will be effective for 1983 and 1984, accomplishes this objective.

The minimum tax rate in the states for employers who are not subject to experience rating is 2.7 percent under federal law. With the increase in 1985, these employers will be faced with a minimum state tax rate of 5.4 percent plus the 0.8 percent federal tax.

The following state tax rates (plus the federal 0.8 percent) are in effect for employers not subject to experience rating:

New York	apparel industry --3.0% canning industry -- 3.2% construction industry -- 3.2%
Washington	all industries -- 3%
Puerto Rico	all industries -- 2.95%
Virgin Islands	all industries -- 2.7%

If doubled rate takes effect, employers in these industries will be forced to pay substantially higher rates in what in these industries and jurisdictions could stil be a very much depressed economy.

The AFL-CIO supports the increase of the total FUTA tax rate from 3.4 percent to 3.5 percent and urges repeal of the proposal to increase the FUTA tax rate to 6.2 percent in 1985.

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Senator HEINZ Mr. Friedman.

STATEMENT OF SHELDON FRIEDMAN, DIRECTOR, RESEARCH DEPARTMENT, INTERNATIONAL UNION, UAW, ACCOMPANIED BY BETTY ROBINSON, LEGISLATIVE REPRESENTATIVE

Mr. FRIEDMAN. Thank you, Senator Heinz. My name is Sheldon Friedman. I am research director of the UAW. With me today is Betty Robinson, legislative representative, UAW.

I appreciate this opportunity to present our views on the administration's unemployment proposals. UAW members by the hundreds of thousands have been among the frontline victims of the disasterous economic policies of this administration and the terrible unemployment that those policies have produced.

The menu of proposals we have seen to date from this administration includes a tax credit to businesses that hire the long-term unemployed—the so-called voucher plan—a new subminimum wage for youth during the 5 summer months, a proposal to spend some $204 million in fiscal 1984 for the displaced worker program under title III of the Job Training Partnership Act, a 6-months extension of the FSC program, tied, however to more stringent eligibility requirements, as Mr. Seidman outlined, and a proposal to tap up to 2 percent of the State unemployment insurance revenues for training purposes.

In addition, it appears that the administration is willing to accept a modest $4.6 billion jobs package.

Let me comment briefly on each of these, if I might. The voucher program, as Mr. Seidman has indicated, would result primarily in the recycling of the unemployed. To the extent it was effective at all, it would give employers an incentive to replace incumbent workers with those who would be eligible for the voucher, with no requirement that there be any net increase in jobs.

It is obvious this is no solution to our Nation's unemployment problem, and we are unalterably and strongly opposed to that particular proposal. I think it is instructive, and the testimony I have submitted for the record details it more fully, that the administration itself appears quite fully aware of the limitations of this tax credit employment subsidy approach.

If I might turn now to the question of the youth subminimum, if anything, that proposal is even more pernicious than the voucher recommendation. Under the youth subminimum employers would in effect be given a license to replace adult breadwinners who are working at the minimum wage with youth at below the minimum wage. This, we suspect, would particularly impact female workers who are often the sole support of families. This would have very dire consequences and we are strongly opposed to it.

With respect to the dislocated workers program, title III of the Job Training Act, the administration has proposed spending some $204 million under this program for fiscal 1984, and they have made a big point of comparing that level of expenditure with the $25 million Congress appropriated for the current fiscal year.

That is, I think, clearly a most misleading comparison. It was never intended that that $25 million of seed money should represent in any sense an adequate level of funding for that program. In

fact, Members of Congress were talking initially about figures in the neighborhood of $250 million, up to $1 billion, as a more appropriate amount of seed money, and even those figures, I think, are woefully inadequate.

Equally misleading is what the administration is not saying about its spending proposals for other employment and training programs. If you add all of that up, all of those budget items, what you find is the total for fiscal 1984 would amount to some $4.7 billion in terms of spending for all employment and training activities, and this would represent a decline from last year and a level of spending that would be less than half the amount spent in fiscal 1980, when unemployment was less than two-thirds of what it is today.

The number of workers potentially served by the administration's proposal would be under 100,000, and this compares with a need that we conservatively estimate at more than 2 million workers who have been permanently displaced from their jobs, based upon the very conservative method of estimation which, if updated, would probably yield a substantially higher figure than that.

Added to the limitation of the approach of relying on this Job Training Act is the structural deficiencys of the legislation itself, the limitations in terms of spending for supportive services, stipends, allowances, and so forth. This will, I am afraid, hamper the effectiveness with which even those limited funds can be utilized.

Then really the bottomline is training is all well and good, but it is not effective in the absence of jobs, and without a meaningful program to create jobs, it is difficult to see what hope there is for trainees at the end of the tunnel when they finally complete their training.

I see my time has lapsed. I would just note in closing that it is obviously an urgent need that the Federal supplemental compensation benefits be extended. However, we believe this does not go far enough and the UAW proposes a permanent program of 52 weeks maximum unemployment duration during periods when the unemployment nationally is at or below the 4 percent Humphrey-Hawkins target, and in the event the unemployment rate is above that level, we would support a permanent program of 65 weeks benefit eligibility.

In terms of the heartless proposals to further restrict eligibility, the increase in the work test from 20 weeks to 30 weeks in terms or rendering ineligible those who lose their jobs for any reason other than "lack of work," obviously we are strongly opposed to those. It is difficult to see any serious substantive justification for those proposals. They seem motivated only by a desire to save money, to cut costs, and to do it in the worst possible way—that is, to do it on the backs of the Nation's hard-pressed unemployed.

The CHAIRMAN [presiding]. We have a vote in progress and we hope to conclude the hearing soon.

Mr. FRIEDMAN. If I might just say with one closing sentence that the real need is for meaningful jobs legislation now. That is the first and foremost priority from the UAW's view. More details can be found in the prepared statement I have submitted for the record.

[The prepared statement of Mr. Friedman follows:]

STATEMENT OF
SHELDON FRIEDMAN, DIRECTOR, RESEARCH DEPARTMENT
INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE
AND AGRICULTURAL IMPLEMENT WORKERS OF AMERICA
BEFORE THE
SENATE COMMITTEE ON FINANCE
ON THE
ADMINISTRATION'S UNEMPLOYMENT PROPOSALS

March 3, 1983

Thank you for this opportunity to present the UAW's views on the Administration's unemployment proposals, and the alternatives to those proposals which we would recommend.

Although there is widespread talk of economic recovery, we in the UAW see relatively little tangible evidence of it, apart from a welcome modest uptick in auto production, and far more evidence of continued hard times. In 1982, only 7.2 million cars and trucks were produced in the United States, down 44 percent from 1978, the industry's last healthy year. The impact on employment has been predictably traumatic. In 1978, the motor vehicle and equipment industry employed 1,005,000 blue- and white-collar American workers. In 1982, the figure was 680,000, a decline of 32 percent. In addition to the 325,000 auto workers who lost their jobs, an estimated 750,000 supplier sector workers lost theirs, resulting in a loss to the economy as a result of the auto crisis of over one million manufacturing jobs.

In other industries, the picture has been equally bleak, with more than three million manufacturing jobs having disappeared since mid-1979, a loss of one job in seven. It is widely predicted that even when economic recovery comes, as it eventually must, countless thousands of those lost manufacturing jobs will not reappear.

Economy-wide, unemployment remains at the highest level since the Great Depression. Indeed, if the historical statistics are adjusted to take account of those employed in works projects established during the Great Depression — and to adjust

for the 1.8 million "discouraged unemployed" today — the unemployment rate in this country is actually higher today, than it was in 1936.

Unemployment is at or near a record post-Depression level for nearly every major group. Among black workers, it is a shocking 20.8 percent, the highest level since this figure was first collected. Among Hispanic workers, unemployment is 15.5 percent, highest since this data series began. Since blacks and other minorities make up some 22 percent of the workforce in the auto industry, versus 11 percent of the workforce nationwide, it is clear that the impact of the auto crisis on minority workers has been especially severe.

Not only are more people out of work, but they are out of work longer. Average duration of unemployment has increased to almost five months, a postwar record. Nearly one unemployed person in four has been without work six months or longer, twice the proportion of one year ago.

Beyond the massive number of unemployed who are officially counted, an additional 6.8 million Americans are forced to accept part-time work because of the slack economy. Adding those workers in, and adding in the above-mentioned 1.8 million discouraged unemployed (yet another unenviable record), brings the total of the unemployed and under-employed in this country to over 20 million, nearly 18 percent of the country's potential civilian labor force. Since the current recession began in July 1981, unemployment is up by 3.6 million, employment is down 1.7 million, and the unemployment <u>rate</u> is up 3.2 percentage points.

In a number of our states and cities, particularly in the nation's industrial belt, unemployment is quite literally at depression levels. In Michigan, unemployment in January was 17 percent, including (the month before) 22 percent in the hard-pressed city of Flint, and 17.7 percent in metropolitan Detroit. Unemployment in the nearby states of Ohio and Pennsylvania in January was 14.9 percent, in Illinois it was 13.5

percent, and in Indiana, 12.9 percent. In the case of Michigan, our unemployment rate has been in double digits since January 1980.

Mere statistics cannot convey the incalculable human and social costs of the unemployment crisis we face. In terms of lost GNP, the wealth that our economy could have produced last year, but did not produce because of unemployment, totaled $350 billion — $1,500 for every man, woman and child. Every percentage point that the unemployment rate goes up costs the federal Treasury between $25-$30 billion.

Including families of the unemployed, roughly 16 million Americans have lost their medical insurance as a result of unemployment. It is no accident, though it is shocking and unnecessary, that in Michigan infant mortality is on the rise. In parts of Detroit, the rate of infant mortality is higher than in Honduras. Nationwide, more homeowners were behind in mortgage payments or were in the process of losing their homes through foreclosure in the final quarter of 1982, than in any period in the previous 30 years. In the midwestern states of Illinois, Indiana, Michigan, Ohio and Wisconsin, the foreclosure rate is more than three-quarters higher than the record rate prevailing throughout the nation.

At a time of unprecedented need, the unemployed have been among the front-line victims of the Administration's budget cuts. Federally funded public jobs programs have been virtually eliminated at the worst possible time, while the protections afforded under the unemployment compensation program have been seriously cut. In 1982, only 44 percent of the nation's unemployed received any benefits under that program. In contrast, the ratio of benefit recipients to the total number of unemployed averaged 60 percent during the seven previous post-World War II recessions, and reached 71 percent during the severe 1974-75 downturn. In 1982, more than half a million in Michigan, Ohio, Illinois, Indiana and Pennsylvania exhausted their federal-state extended UI benefits, and 170,000 workers in Ohio, Michigan, Illinois and Indiana exhausted their Federal Supplemental Compensation (FSC) benefits.

Instead of filling this gap, the level of other transfer payments to the long-term unemployed has also been seriously slashed. According to a recent study by researchers at Goldman-Sachs (hardly a "front" group for the unemployed), total government assistance per unemployed worker plummeted from an average of $392 in 1970 to only $48 in 1982. Little wonder that we are witnessing soup lines, tent cities, and in the ultimate irony and national embarrassment, "reverse care packages" are being sent from overseas to the hard-pressed unemployed of Detroit.

Nascent economic recovery, however ambiguous the evidence for it, is used by some as an argument to forestall urgently needed federal action. Whatever the evidence for recovery, it cannot be found to any significant extent in the labor market. In January, there was a widely heralded drop in unemployment from 12 million to 11.4 million (and from 10.8 percent to 10.4 percent in percentage rates), the first drop since the recession began 18 months ago. But this decline does not represent any real improvement in the job market. The 590,000 decline in the number unemployed was not matched by a comparable increase in employment. Instead, the labor force "shrank" — and the Labor Department's seasonal adjustment process is widely acknowledged to have overstated the month-to-month drop. Nor can much hard evidence of recovery be found in auto sales. After chalking up gains of 29 percent and 25 percent, respectively, over the prior year in November and December 1982, new car sales rose only 12.5 percent in January from a depressed year-earlier figure, then declined 8 percent in the first 20 days of February. Even if we get the modest 12 to 15 percent sales gain this year that many forecasters predict, rising productivity could offset much of the impact on the number of jobs.

The Administration's Unemployment Proposals

By admission of the President's own Council of Economic Advisers, unemployment is the most serious economic problem now facing the United States. Yet Reagan's Fiscal 1984 Budget contains very little that would effectively help the unemployed. To date, the Administration's proposals include the following:

- Tax credits to businesses which hire the long-term unemployed through a system of "vouchers." Qualified individuals receiving FSC benefits could elect to convert their remaining payments to vouchers.
- Subminimum wage for youth. The minimum wage for people up to age 22 would be reduced to $2.50 an hour during five months of the year.
- Proposed spending of $204 million in fiscal 1984 for the displaced worker program established under the Job Training Partnership Act.
- Six month extension of FSC — with 30 weeks of work eligibility requirement, and denial of benefits to voluntary quits and discharges for good cause.
- Up to 2 percent of state unemployment insurance revenues for training.

In addition, the Administration appears willing to accept a modest $4.6 billion jobs package. Comments on each of these Administration proposals follow.

Vouchers

The Administration proposes an extension of federal supplemental unemployment benefits to September 30, 1983, with an option for people to cash in their unemployment benefits for vouchers when they get a job. The vouchers would entitle employers to a tax credit and thus supposedly entice employers to hire FSC-eligible workers.

We strongly oppose the voucher proposal. The assumption behind it is that the reduction in labor costs on account of the tax credit, would prompt employers to hire workers offering vouchers. However, as many studies have found,[1] firms increase employment in response to increased demand for their products — i.e., to an expanding economy — rather than to small changes in labor costs.

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1. See, for example, Robert Tannenwald's in New England Economic Review,

The worst feature of the voucher proposal is that, if employers take advantage of the credit, it will likely be because they substitute FSC-eligible for ineligible workers, without expanding their payrolls. Therefore, in those cases when the tax credit is effective, it enhances the employment of some groups at the expense of others.

There are other problems with the tax credit/job "creation" approach. Before they would engage in any hiring, firms would have to owe enough in taxes — and be certain of this early enough in the tax year — to make it worth their while to utilize the credit. In the voucher proposal, the tax credit would be offset first against UI taxes with the balance offset against federal income taxes. Still, corporate income statements hit by recession — and already benefiting from enormous undeserved tax breaks — will not generate enough tax liability to give employers, especially small businesses, a reason to go after this type of tax credit.

It is puzzling that the Administration has proposed the voucher system when two years ago it was adamantly opposed to the continuation of the Targeted Jobs Tax Credit (TJTC), a closely related species of employment tax credit. Back then, Labor Department officials reportedly were worried about the intervention of so-called "third-party vendors" — private for-profit firms assisting employers in obtaining certifications for employees after the hiring decision had been made.[2] Moreover, according to Tyna Coles, then DOL National TJTC Coordinator, "the impact of the program had been marginal, meaning that if we had no program, the people would have been hired anyway."

Both of the Administration's earlier criticisms would still stand if the voucher system were enacted; in view of the awareness of the problem by Reagan

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(cont.)
September-October 1982.

2. Bureau of National Affairs, Daily Executive Report, 4-22-81.

Administration officials, one has to wonder whether the current proposal is advanced merely as "window dressing."

Youth Subminimum Wage

Another proposal by the Administration to supposedly address the unemployment problem among young people is a subminimum wage of $2.50 for youth up to age 22, during five "summer" months. We are unalterably opposed to a subminimum wage for several reasons. There is no conclusive evidence that overall employment is increased by a subminimum wage; what is certain is that it essentially entails "shuffling the deck" of the unemployed. There is no question that the substitution effect would operate, and many jobs now in the hands of adults with dependents would go instead to teenagers and young people. We strongly suspect that a disproportionate number of the displaced adults would be female heads of households, who presently support the nation's most disadvantaged group of families in terms of income. Another group that would suffer from a subminimum wage are the young people who now work throughout the year. Come May, they would have to take a pay cut of 25 percent, or face dismissal: often, minimum wage jobs require few skills and no experience, so that workers are easily replaced.

"Dislocated Workers"

Another major element of the Administration's proposal is to expand in the next fiscal year, assistance to the unemployed who have been permanently displaced from their jobs — a vast group which is of particular concern to the UAW.

As part of the proposed 1984 budget package, the President would spend $204 million for the displaced worker program that has been established under the Job

Training Partnership Act. The Administration compares this with the $25 million Congress appropriated to start this new program in 1983, and uses the apparent eightfold expansion as evidence of its responsiveness to the plight of the permanently unemployed.

This comparison, however, is misleading. The $25 million appropriated for this year was considered by Congress as "seed" money, since the JTPA did not require the new program to be established until fiscal 1984. Funding for 1983 was never regarded as an adequate level. In fact, months before the President made his budget proposal, many congressional leaders made the modest proposal that funding in the first full legislated year of the program be set between $250 million and $1 billion.

Equally misleading is what the Administration is not saying about its spending proposals for other employment and training programs. The President has proposed reducing training programs for the economically disadvantaged and youth by $190 million (down to $1.85 billion), cutting the summer youth employment program by 2 percent, abolishing the community service program for the elderly, and abolishing the work incentive program for public assistance recipients. Spending for all employment and training activities combined would decline by 8% from the current fiscal year to $4.7 billion. This is less than half the amount that was spent on employment and training in FY1980 when unemployment was less than two-thirds of what it is now.

Even with an increase in spending for the dislocated worker program in the next fiscal year, that program will fall far short of meeting existing needs. According to Administration estimates, their proposal will provide assistance to approximately 96,000 dislocated workers. Although no data are presently tabulated, it

can be conservatively estimated that at least 2 million workers a year fall into the "displaced worker" category.[3]

Moreover, the present structure of the dislocated worker program has serious limitations. Supportive services, stipends, allowances and administrative costs are held to 30 percent of the federal funds available to the states. Even though this limitation does not apply to any state match, at best, the availability and size of stipends and allowances will be only minimal, preventing many workers from participating in training programs because they will lack the financial resources to support themselves and their families while in training. Limited stipends and allowances also will move the programs toward short-term training, which past experience has shown often fails to result in skill development that leads to good long-term job opportunities. Furthermore, making supportive services compete for a small pool of potential funding is especially short-sighted. Often the availability of crisis intervention and counseling services, such as family and credit counseling, are a pre-condition for success of training or other forms of assistance, as are health care protection, life insurance coverage, and mortgage assistance. Compounding this limitation, the law does not require that any of these services and protections be provided.

The focus of the dislocated worker program — and all other programs under JTPA — is training. However, in an economy with depression level unemployment, the real issue is employment growth. Training programs alone cannot solve our economic problems. They would be an important element of a comprehensive

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3. Estimate based on work by Professors Barry Bluestone and Bennett Harrison in which they found that 15 million U.S. workers became victims of plant shutdowns between 1969 and 1976 — an average of 2.1 million per year. Given the magnitude of the economic crisis and the severity of its impact on basic industries such as auto and steel, the updated figure would undoubtedly be far larger.

labor market policy which had as its objective economic growth and full employment. Without such a national commitment, however, graduates of training programs will have little reason to feel sure that they will find jobs.

Extended and Federal Supplemental Compensation Benefits

The Administration proposals on unemployment compensation are inadequate and unsound. Except for the six-month proposed extension of the Federal Supplemental Compensation (FSC) benefit program, the Administration otherwise is staying the course in pushing programs that will cut costs at the expense of the unemployed. Their proposals include:

* Raising the eligibility requirement for FSC to 30 weeks from 20 weeks;
* Denying FSC to workers who are unemployed because of a discharge for good cause or a voluntary quit; and
* Allowing the states to use 2 percent of their unemployment insurance trust funds for training and relocation benefits.

In the midst of the worst unemployment in more than 40 years, the federal government must take greater responsibility for protecting the long-term unemployed. Instead, the Administration seeks to deny supplemental benefits to thousands of workers. The eligibility requirement of twenty weeks is already too stringent a test for strong attachment to the workforce. Extension of this requirement to thirty weeks of work cannot be justified on the grounds that the existing requirement is too weak. Rather, it is motivated only by a desire to deny benefits and cut costs.

The Administration's proposal on FSC eligibility for voluntary quit and discharged employees is inequitable. The states already penalize harshly and unfairly these workers, and they should be considered unemployed involuntarily by the time they exhaust their regular or extended benefits. The denial of supplemental benefits thus unfairly penalizes such workers for their inability to secure employment at a time when nearly twelve million other workers are out of work.

The Administration also has proposed that Congress allow the states to siphon off revenues from their unemployment insurance trust funds to pay for training and relocation benefits. Though additional training programs are needed, they must not be generated at the expense of unemployment benefits, which already are inadequate in most states and continually are under attack in many states due to the financial squeeze on state funds created by high levels of unemployment.

The Administration's proposal on the FSC program is not adequate for meeting the needs of the long-term unemployed, especially in light of the enormous cutbacks in the Federal-State Extended Benefit (EB) program that were instituted within the last eighteen months.

The existing Federal Supplemental Benefit program provides for eight to sixteen weeks of benefits. In twenty-six states, however, the extended benefit program is not in effect because of the legislative changes enacted in mid-1981. Therefore, the FSC program essentially serves to partially compensate for the EB cutbacks. In states like Arizona, Oregon, Tennessee, and Wisconsin, each with total unemployment rates in excess of 10 percent, the maximum duration of benefits currently is forty to forty-two weeks, which is wholly inadequate.

Extension of the Federal Supplemental Compensation program is essential. However, we urge Congress to go beyond this meager program and restore the integrity of the Federal-State Extended Benefit program as well — and to provide additional needed protection for the long-term unemployed.

Restoring the integrity of the Federal-State Extended Benefit program will require several changes, as detailed in what follows.

The increases in the rates for individual states to trigger "on" the extended benefit program, which went into effect last fall, must be rescinded. During the first week in February, exhaustees of regular benefits in 24 states were eligible for up to 13 additional weeks of extended benefits. As a result of the tightened trigger

requirements (5 percent thirteen-week average insured rate and 20 percent higher than the insured rate in the same weeks in prior two years, or 6 percent insured rate in the states selecting this optional trigger), exhaustees in 10 other states were denied these additional weeks of benefits.

The program for paying extended benefits in all states when the national insured unemployment rate exceeds 4.5 percent must also be revived. The national extended benefit program is essential in bolstering purchasing power and in protecting unemployed workers concentrated in high unemployment areas of states otherwise not paying extended benefits. Had the national trigger not been eliminated and the insured unemployment rate computation not been changed, extended benefits would have been available in every state since at least last spring.

Computation of the insured unemployment rate should include recipients of extended benefits, and should not be restricted to claimants receiving regular state benefits. Proponents of the new computation method which excludes extended benefit recipients, argue that it not only cuts "costs," but also is more equitable because it defines the level of unemployment identically for both "on" and "off" triggers. The former method counted recipients of state benefits for triggering "on," and recipients of both state benefits and extended benefits for triggering "off." In our view, the former method not only provided a better measure of unemployment, but it also represented a more equitable measure. While the former method counted exhaustees of state benefits precisely when exhaustion rates are most likely to rise — in the midst of a recession — the current method misses all fluctuations in the exhaustion rate by counting only recipients of state benefits. Furthermore, by ignoring all exhaustees of regular state benefits, the current method punishes exhaustees in states experiencing a combination of declining rates of job loss and stagnant employment growth.

Rescinding the cutbacks in state and national extended benefit programs and extending the FSC program will afford unemployed workers much of the income

protection they require while unemployed due to forces beyond their control. However, Congress must go beyond rescinding cutbacks, if it is to help unemployed workers survive the present crisis.

It is time for Congress to review once again the July 1980 recommendations of the National Commission on Unemployment Compensation. The Commission recommended continuation of the state and national extended benefit programs, with a single insured rate trigger of 4 percent for the state program and 4.5 percent for the national program. Furthermore, the Commission advanced a proposal for a permanent two-tier supplemental extended benefit program that would provide up to 52 weeks of benefits when the state insured rate reaches 4.5 percent or when the national insured rate reaches 5 percent, and to provide up to 65 weeks of benefits when either of the two insured rates reaches 5.0 percent or 5.5 percent, respectively. The Commission recommended financing this program through federal general revenues.

During the two recessions of the 1970s, legislation was enacted to extend unemployment benefits for durations of as long as 65 weeks. Between January 1972 and March 1973 benefits were extended for an additional 13 weeks, up to a maximum of 52 weeks. Benefits became payable for an additional 13 weeks to exhaustees of extended benefits between January and March 1975, for 26 additional weeks (up to 65 weeks) between March 1975 and March 1977, and for 13 additional weeks (up to 52 weeks) until January 1978. The 13 additional weeks of potential benefits payable between April 1977 and January 1978 were financed by general revenues.

Unemployed workers today face far bleaker prospects than in the mid-1970s, yet benefits are available for a shorter duration than during that last recession. We therefore support proposals for extending benefits beyond regular and extended benefits, and recommend that Congress establish a permanent program providing for a maximum benefit duration of 52 weeks under normal circumstances and no less than 65 weeks when unemployment at the national level exceeds the 4 percent goal set forth

in the Full Employment and Balanced Growth Act of 1978. Congress also must enact legislation to provide health care protection for unemployed workers and their families and alleviate some of the enormous toll caused by the combined, simultaneous loss of jobs, incomes and health insurance coverage.

Problem of State Debt

The UAW urges Congress to deal fairly with the financial difficulties of the states by enacting legislation that would reimburse the states for the excessive costs generated by high unemployment associated with three recessions since 1975. As of the end of December, outstanding loans to the state trust funds totaled nearly $11 billion, including $8 billion owed by the hardest hit states of Illinois, Michigan, Ohio, and Pennsylvania. The heavy indebtedness of these and other states cannot be attributed to fiscal mismanagement, laxity, or irresponsibility. The fault lies with the massively high unemployment rates imposed on these states by national economic policies aimed at fighting inflation, and skyrocketing imports which the federal government does little to regulate. The toll has been heavy and the federal government should pick up its share of the responsibility and the costs.

15.

Compromise Jobs Bill

Against the backdrop of rampant unemployment and depression and hopelessness which engulfs vast regions of the country, the "jobs" bill which passed the House Appropriations Committee on February 25 barely deserves the name. Its price tag — $4.6 billion — shows right away that, if enacted, it will fall far short of creating the number of jobs necessary to make a perceptible dent in the unemployment problem. Also, not enough monies would be allocated directly to areas of high unemployment; the bill is heavily tilted toward "brick and mortar" projects already scheduled, not necessarily in hard-hit areas. We fully agree that there is a need to proceed with this much — and indeed substantially more — in order to help repair the nation's deteriorating public facilities. But any jobs bill should also address the devastating cutbacks in services that many states and localities have had to make as their resources have plummeted. A substantial amount of funds should go to restore those services, which in turn should create jobs for less skilled workers and women.

We urge Congress to respond to the Administration's insensitivity with boldness rather than timidity, and make the "emergency jobs bill" just the first installment of a comprehensive package to increase employment and put us firmly on an expansionary path. We in the UAW estimate that an appropriation of $30 billion at an annual rate — a supplement of $17.5 billion to the spending appropriation for the current fiscal year — is necessary to get us back on the track to full employment. About four-fifths of that amount should go for community development, public service-type programs, including funds earmarked for youth. Our calculations show that, on an annualized basis, as many as 3 million direct and indirect jobs could be created very soon; that is still a modest jobs program relative to the total number of unemployed

and the 3.6 million increase in unemployment just since July 1981. The need to shore up the infrastructure has been widely documented, and that has resulted in belated but widespread acknowledgment that funding those types of programs is public money well spent. Unfortunately there has been more resistance to re-enacting programs to create service jobs. However, public jobs programs have proven their worth in the past:

- They are the most cost-effective way of reducing unemployment, because the money distributed under these programs gets into the spending stream very quickly, and reactivates economic activity across the board.
- Community development jobs created with federal funds would not be created unless those funds are made available, because most states and localities are desperately strapped for funds. Even if subsitution were to take place, that frees up funds to be spent on other needed programs, or avoids the necessity of pro-cyclical tax increases.
- Public jobs can accomplish many useful tasks. With so many urgent, unmet needs, public employment need not be "leaf-raking" or "make work."
- There have been problems with previous public jobs programs, but, as pointed out by former Labor Secretary Marshall, those problems stemmed from bad management, and are in no way intrinsic to the programs themselves. The answer is to improve the management, not to discard programs that constitute a good investment for society.

UAW Alternatives

Clearly, the UAW believes the unemployment crisis is the nation's most pressing economic and human problem. It is questionable whether what the Administration is suggesting to address that crisis merits being described as a serious proposal.

In recent Congressional hearings, the UAW has enumerated other elements of the total approach that is really needed — including retention, liberalization and adequate funding of the TAA program; emergency forbearance for the unemployed to prevent foreclosures, evictions and utility shutoffs; emergency food distribution; and enactment of domestic auto content legislation. Without burdening this Committee with excessive detail, the following is a summary of other key approaches which are needed:

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- Jobs programs — we need modern equivalents of the WPA, CCC, etc., to create at least 3 million jobs, now. Funding should be provided by repeal of indexation, capping this year's tax cut as the AFL-CIO suggests, closing other loopholes opened wider recently for corporations and the rich, and scaling back the massive, excessive and dangerous increases in military spending which the Administration requests.

- New monetary policy — conducted by a democratic and accountable Fed. Sky-high interest rates brought on by "tight money" caused the current economic crisis and must not be allowed to recur ever again.

- Improved "safety net" — as discussed in this statement, there should be extended UI, medical insurance for the unemployed, forbearance on foreclosures, evictions, and utility shutoffs, emergency food assistance, and other forms of needed assistance. Social program cuts advocated by this Administration should be resisted and reversed.

- Longer term — there must be new approaches to industrial policy, labor market policy (including training, retraining and meaningful plant closing legislation) — and in support, a totally new set of policies on international investment and trade, including enactment of the auto content law. With a $75 billion balance of trade deficit projected for 1983, in the absence of new approaches to trade policy, economic stimulus may not have the intended beneficial impact on U.S. jobs.

Thank you for this opportunity to present the UAW's views.

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The CHAIRMAN. Are there other members of the panel who have not testified? Have you all testified?

[Members of the panel nod affirmatively.]

The CHAIRMAN. Senator Heinz?

Senator HEINZ. I have no questions, Mr. Chairman.

The CHAIRMAN. We have had an earlier meeting with some of the labor groups on this issue. As I have indicated this morning to Governor Thompson, I had to go work on a commodity distribution program, in which you also have an interest. We have reported that bill out this morning.

We are going to try to do something with regard to unemployment benefits. We are trying to address some of the concerns you have raised. I am not certain we can do as much as you would like, but since some UI changes have been made a part of the social security package, it is germane to the social security bill. It may be that we will want to do something on this side and then go to conference.

We will be working with you in the next few weeks. We have markup on Wednesday, so we will probably be working with you before then. Thank you very much.

Mr. SEIDMAN. Thank you, Mr. Chairman.

Senator HEINZ. As I understand it, Mrs. Vernon, you are the last witness. Is that right? Miss Hackett, I believe, is waiting for Senator Chafee.

Ms. HACKETT. [Nods affirmatively.]

The CHAIRMAN. We are having a vote on the floor, which makes life complicated. If everyone leaves, Marion, you will know what happened. Your entire statement will be made part of the record and if you could summarize your statement, we have about 5 minutes before the second bell rings. I will have to leave at that time to make the vote.

STATEMENT OF MARION VERNON, PRESIDENT, NATIONAL MENTAL HEALTH ASSOCIATION, ACCOMPANIED BY ROBERT HERMAN, EXECUTIVE DIRECTOR

Ms. VERNON. In my closing paragraphs I make several recommendations and an announcement.

The National Mental Health Association recommends the following. In considering a Federal jobs bill, we suggest that Congress consider including provisions to train appropriate unemployed workers to become case managers for long-term mentally disabled patients in the community.

The Senate may wish to consider similar action to that taken recently by the House Appropriations Committee to include in a jobs bill $3 million to increase current funding for the services under the alcohol, drug abuse and mental health block grants, as well as an additional $150 million for the social services block grant.

Mental health and related services which could help unemployed persons and their families cope effectively and avoid deterioration should be expanded. Legislation should be considered, such as S. 307, sponsored by Senator Riegle, to insure that unemployed workers continue to be covered by a health insurance policy for some time after they have been laid off.

Legislation to protect mentally ill, disabled persons who are unemployable because of their illnesses may be needed in this Congress. In this regard, this committee and you, Mr. Chairman, are to be commended for your actions last year to insure that disabled persons who are unemployed because of their disability continue to receive their benefits under the social security disability insurance program.

Changes in medicaid and other human services programs should be considered in order to help insure the availability of appropriate, community-based small group homes for long-term mentally disabled persons in need of them.

We have included further details in our written statement for your interest and the record. We hope to be working with you and your staff on many of these proposals.

Now my announcement. Because of the magnitude of the employment problem and the major impact unemployment has on the prevalence of mental illness, on the mental health service system, and on families, the National Mental Health Association within 30 days will appoint a national commission to examine the effect of unemployment on the mental health of the American people.

The purposes of this commission will be to inquire into the destructive mental health aspects of high and long-term unemployment and to make recommendations on how the public and private sectors can work together with increased effectiveness in order to alleviate the associated trauma.

Our objective is to broaden both the public and private sector's understanding of issues related to unemployment so that human needs, including appropriate mental health services, are a priority in our comprehensive approach to what has been a long-term problem for large groups of citizens and which has now spread to all levels of society.

We will be in further communication with you as the commission gets underway.

Thank you, Senator.

[The prepared statement of Ms. Vernon follows:]

Prepared Statement of Marion Vernon

My name is Marion Vernon, from Topeka, Kansas, and I am President of the National Mental Health Association. The Mental Health Association is a nationwide, voluntary, non-governmental organization dedicated to the promotion of mental health, the prevention of mental illness and the improved care and treatment of the mentally ill. Its 850 chapters and divisions, and more than one million citizen volunteers, work toward these goals through a wide range of activities in social action, education, advocacy and information.

Unemployment has serious mental health implications. Not only are unemployed workers at high risk of developing major mental health problems, but so are their families. Problems are compounded by lack of health insurance, inadequate access to mental health services, problems in government programs which should be providing for basic needs, such as food, shelter and a minimum income.

Impact of Unemployment: Mental Health Implications

The mental health implications of unemployment have been well documented. For example, Dr. Harvey Brenner, who has studied the impact of unemployment for many years, calculates that for each rise of 1% in the unemployment rate, 4.3% more men and 2.3% more women are admitted to state mental hospitals for the first time, 4.1% more commit suicide, and 1.9% more people die of stress-related diseases, such as heart disease, or from the effects of alcoholism and other physical ailments.

In Los Angeles, Dr. Ralph Catalano of the University of California found that when unemployment rates went up there was a significant rise in child abuse. Media reports from Oregon indicate the number of child abuse cases rose 46% in one year, and have been consistently hitting new monthly highs. In South Carolina deaths of abused children increased sharply. In Michigan, the increase was a less dramatic 9%, but the cases came disproportionately from counties where jobs depend on the struggling auto industry.

In a Wisconsin study, counties with sizable increases in joblessness from 1979 to 1981 reported a 69% rise in abuse cases, compared with a 12% rise in counties with lower unemployment rates.

In a Family Service Association survey, 74% of centers responding nationwide reported increased family violence, and more than half blamed it totally or in part on unemployment and the economic conditions. Financially, emotionally, and physically, unemployment can affect all members of a family. It often means disruption in families' lifestyles and shif-s in roles and responsibilities among family members.

One study in Pittsburgh showed increased family tension, more depression and apathy, higher blood pressures, increased smoking and child abuse in a survey of 250 laid-off steelworkers. Other studies cite rises in spouse abuse.

Unemployment thus has a devastating impact upon the mental health of America. This impact must be recognized, and we must consider how to alleviate or prevent the development of serious mental health problems in the unemployed population and their families. Many of the unemployed are developing severe, untreated emotional problems, committing suicide, becoming alcoholic or drug abusers.

Special Problems of Homelessness

The stress of unemployment is increased for those workers and other individuals who now, in increasing numbers, have no place to call home. The homeless population in this country is not accurately assessed but a number of studies, and increasing media attention, make it clear that homelessness is increasing. The pressures of increased unemployment, combined with inadequate funding for community services for mentally ill and other sick or demoralized individuals, adds up to a national problem variously estimated at from 225,000 to over 2 million homeless people.

The four most frequently identified reasons for being homeless are: sharp decreases in public funding for social and human services; shortages of low income housing; deinstitutionalization of persons with mental illness without sufficient community preparation, and the dramatic increase in unemployment. Other

contributing factors include: family breakdown, spouse abuse, general economic conditions, and evictions.

A recent study in Columbus, Ohio, found a growing number of residents are using shelters as permanent forms of lodging. It was found the majority of shelter residents were in their 20's and 30's and one third admitted to mental health problems.

A study indicates that there are from 7,500 to 9,000 homeless women and children who need services, and that current services are inadequate in the City of Baltimore.

Many reports are indicating that homeless people cannot qualify for public assistance and services as they do not have an address.

A New York study indicated that 15% of a selected group using New York City shelters were homeless because of mental illness. The problem of the mentally disabled homeless is exacerbated by the disproportionate number of that population being terminated from Social Security Disability Insurance benefits. A study in Washington, D.C., reports that over 50% of the men and 70% of the women who use emergency shelters have had contact with the mental health service system. At the same time, Mr. Mitch Snyder of the Community for Creative Non-Violence, a group with first-hand knowledge of homelessness in the District of Columbia, has stated "you never know if someone is on the streets because they are 'off' or if they are crazy because they are on the streets." Despite the casual language, there is much wisdom in the statement.

Impact on Community Mental Health Services

Community Mental Health Centers are experiencing a substantial increase in caseload, which in many instances is accompanied by staff and budget reductions. The National Institute of Mental Health has examined five special programs established by Community Mental Health Centers in areas of unemployment which are designed to provide services to the unemployed and their families. These centers reported a 10% increase in their total caseload as a result of unemployment related problems. Their

special programs for the unemployed report that 36% of patients have marital problems; 27% report parent-child problems; 7% are cases of spouse abuse; 14% cases of substance abuse; 6% show violent or suicidal behavior and 3% are child abuse cases. These data are reinforced by a survey by the National Council of Community Mental Health Centers of its members, which revealed that 62% of the centers responding noted an increase in the proportion of patients with unemployment related problems during the past year. Ironically, many center staff members are being faced with the threat of unemployment themselves.

The financial pressure on centers comes from many sources. With unemployment, health insurance is lost, and private third party payment to centers is reduced.

In some states, optional Medicaid coverage is being curtailed, including outpatient mental health services. These pressures compound long-standing discriminatory policies of Medicaid and Medicare, which prevent many mentally ill persons from gaining access to the services they need, particularly outpatient care.

The end result of these factors is an expanding need for mental health services coupled with a decreasing supply of accessible services.

What Can Be Done?

There are a variety of actions which Federal, state and local governments can take to alleviate some of these problems. One part of the solution might well be a federal jobs program, and we support the current efforts to develop a bipartisan bill to help put more Americans back to work.

In the development of such a bill, thought should be given to training appropriate unemployed workers to fill needed service jobs in the mental health system. For example, para-professional case managers are needed to assist chronically mentally ill patients, at risk of institutionalization, to live in the community. Such training would build needed cadres of workers to help

alleviate the problems of homeless mentally ill persons. They could also provide much needed homemaker services.

A number of state and federal demonstration projects have successfully trained unemployed persons without college degrees to work with such severely mentally disabled persons. Trainees learn to find needed practical assistance for the disabled person such as with every day living needs of housing, transportation, food and if possible, employment.

Such para-professionals have succeeded in improving the patient's condition or at least slowing his decline and have significantly reduced the need for patients to return to expensive inpatient care.

On the basis of past experience with other projects, it is estimated that training programs for such para-professional work with the mentally disabled would last about three months and that each trainer can train about 100 trainees a year. In turn, each trainee or case manager can work with about twenty patients at a time.

Expenses for a such a comprehensive program can be calculated at a number of levels. Para-professional workers now receive an average of about $15,000 per year. Educators to train such workers would normally command salaries of up to $30,000 per year.

Mental health services which could help unemployed persons and their families cope effectively and avoid deterioration, should be expanded. In this regard, the Senate may wish to consider similar action to that taken recently in the House to include in the Jobs bill, now reported by the House Appropriations Committee, $30 million to increase current funding for services under the Alcohol, Drug Abuse and Mental Health Block Grant, as well as an additional $150 million for the Social Services Block Grant.

Another action which would have a significant effect on the mental health problems facing recently unemployed workers would be legislation, such as S 307, sponsored by Senator Riegle, to ensure that unemployed workers continue to be covered by a health insurance policy for some time after they have been laid off.

For those who may not be helped by a jobs program, we need to look to the federal government programs for basic l fe support needs. This Committee, and you Mr. Chairman, are to be commended for your actions last year to ensure that disabled persons who are unemployed because of their disability continue to receive their benefits under the Social Security Disability Insurance program. More legislative action to protect mentally ill disabled persons who are unemployable because of their illnesses may be needed in this Congress, and we look forward to working further with you on these issues.

In addition to income, we need to look at the problem of a place to live. With respect to the mentally ill unemployed and homeless population, National Mental Health Association believes that many of this group of people could be helped through changes to Medicaid and other human services programs so as to ensure the availability of appropriate community group homes, case managers and adequate coordination of all the mental health and related support services which these individuals need if they are to function independently. As psychiatric care and treatment of the mentally ill has enabled us to move away from long-term institutional care for many such persons, we have at the same time failed to put in place the community resources which are a necessary alternative to the institution. Action to begin to rectify this situation and to help states and localities which are grappling with the problem of large numbers of chronically mentally ill homeless people is high on NMHA's agenda for this year, and we will be bringing our proposals to you at the appropriate time.

Other basic supports for the unemployed are: social services, food stamps, welfare (federal, state and local) as well as health services. As you consider the problems of unemployment, we urge that you not focus exclusively on the creation of jobs. High unemployment rates are expected to continue for some time, and we must address the total needs of unemployed persons and their families if we are to avoid the tragic consequences so well documented in the studies cited earlier.

Because of the magnitude of the unemployment problem and the major impact unemployment has on the prevalence of mental illness, on the mental health service system and on the families, the National Mental Health Association, within 30 days, will appoint a National Commission to examine the effect of unemployment on the mental health of the American people. The purposes of this Commission will be to inquire into the destructive mental health aspects of high and long-term unemployment, and to make recommendations as to how the public and private sectors can work together to begin to alleviate the associated trauma. The Commission will examine:

- the mental health impact of living in a society with the threat of high unemployment;
- how to deal with the stress and trauma related to unemployment;
- psychological and social problems encountered in obtaining needed services;
- creative mechanisms to pay for services (including insurance issues);
- needed basic life support services such as housing, food, clothing and income support;
- how public/private sectors are responding;
- identification of health care needs of the unemployed;
- the mental health implications of the role of work in people's lives;
- problems created by associated homelessness, especially of mentally ill persons.

Our objective is to broaden both the public and private sectors' understanding of issues related to unemployment so that human needs, including appropriate mental health services, are a priority in our comprehensive approach to what has been a long-term problem for large groups of citizens and which has now spread to all levels of society.

THE STORY OF THE MENTAL HEALTH BELL

The Mental Health Bell, which is familiar throughout the land as the symbol of the mental health movement, is one of the most distinguished bells in the world.

Nothing could echo hope for the mentally ill more dramatically -- for the bell was cast from chains and shackles used as restraints in mental hospitals until they were proved unnecessary and considered an aggravation to mental illness.

The idea of the Mental Health Bell sprang from the same sentiments as that which enshrined the Liberty Bell as a national symbol. At the time it was cast, shackles, chains and similar restraints already were being considered barbarous relics of the days when the mentally ill were treated as criminals, hidden away as hopeless humans.

There was a need to proclaim to the land that the "Mental Health Movement" was responsible for this measure of progress and, more important, to proclaim to the mentally ill that they have hope for recovery; that there is now a nationwide army of volunteers fighting for them, for better mental hospitals, more treatment and facilities for the mentally ill, wider research and more help for the recovered patient to get a welcome back to his home, his community, and his job.

The metal that went into the bell came from mental hospitals in all parts of the country at the request of the Mental Health Association and it accumulated into a "chamber of horrors" in the lobby of the Association's headquarters in New York until there was enough for a good, big, loud bell.

The metal was melted down at the McShane Bell Foundry in Baltimore on April 13, 1953. Serving as foundryman's helpers were Maryland's Governor, Theodore A. McKeldrin, and Mrs. A. Felix Dupont, Jr., member of the Board of the Mental Health Association. With a pair of foundryman's tongs, Governor McKeldrin dropped into the crucible the last piece of metal -- a pair of brass shackles. Also participating in the ceremony were Dr. Robert Felix, director of the National Institute of Mental Health and Dr. J. Frank Casey, representing the Veteran's Administration.

This historic bell has been rung by President Eisenhower, President Nixon, and a host of many others. Currently, it is on public display at the Mental Health Association, National Headquarters at 1800 North Kent Street in Arlington, Virginia, between the hours of 9:00 a.m - 5:00 p.m. Monday through Friday.

The bell, which weighs 300 pounds, bears this inscription:

"Cast from shackles which bound them, this bell shall ring out hope for the mentally ill and victory over mental illness."

Mental Health Association
National Headquarters

The CHAIRMAN. Thank you very much. I would also like to include, in addition to your entire statement, the story of the mental health bell. That will be made part of the record.

Do I understand you are going to present that bell and we are going to have a picture taken at 2:30?

Ms. VERNON. Now.

The CHAIRMAN. Now? OK, good. I have no questions.

We are trying to address some of the concerns you have made in your recommendations. We have been looking at some way to provide health coverage. As Senator Heinz has pointed out, it is not easy to do. We are looking at a number of possibilities and we will continue to look at the disability program to see whether or not that program is being properly administered.

So we hope to continue to work with you in that area. I appreciate very much your testimony and the Kansas input. I believe Senator Chafee would now like to get some Rhode Island input.

Senator CHAFEE. Yes; this is a crazy system, Mr. Chairman, and I apologize to the witnesses going back and forth. I guess the chairman himself must go vote now.

The CHAIRMAN. Women are taking over the country. We have women staff here. Mrs. Heckler's confirmation vote is on the floor. We are happy about that. If you were running this place, I doubt if it would be this disorganized.

Senator CHAFEE. I have no questions of Mrs. Vernon. If Miss Hackett could come up.

The CHAIRMAN. Thank you.

Ms. VERNON. Thank you, Senator.

Senator CHAFEE. I have just a few questions of Miss Hackett. Thank you, Ms. Vernon.

Miss HACKETT. I am back.

The CHAIRMAN. I will leave you in John's hands, and I will run out and vote.

Senator CHAFEE [presiding]. Miss Hackett, you are vastly experienced from your many years as an employment security director and I just wanted to ask you what do you think we ought to do? I know that you felt that using the unemployment compensation funds for training at this particular point in time does not make an awful lot of sense.

But what do you suggest? I am not trying to put you on the spot, I am trying to draw on your experience.

Miss HACKETT. Well, insofar as the use of unemployment trust fund moneys for training, as I said, we feel—and I am speaking for the Interstate Conference and not just for Mary Hackett and Rhode Island—we believe that it is certainly impractical at this time.

The other thing is, we do not believe that the unemployment insurance taxes should be used to defray the cost of training. That does not mean that we do not believe in the need for training and retraining. We certainly subscribe and believe in that, but it seems to me the money must come from some other source. What that source is in this day of financial constraints, both at the Federal and State level, I am not certain, but, at any rate, we do not believe it should be from unemployment insurance tax money.

Senator CHAFEE. I know you have over the years proposed various reforms, and taken positions in the State that have not necessarily been translated into legislation. We are running a $200 billion deficit, and are being asked to defer interest payments on loans to States and ease the cap requirements due to the dire economic situation and the large drain on the fund. Is that right?

Miss HACKETT. What I am saying, Senator, is for 1981 and 1982 there were only two conditions required to meet the cap—no net decrease in solvency—and in the third year, 1983, now there is, in addition to those two rather easy standards, the addition of two more standards which would be that the average tax rate for the calendar year equals or exceeds the average cost-benefit rate for the prior year, and the outstanding loan balance as of a September 30 calender year is not greater than that of the third preceding the September 30.

When we are talking about 1983, that is the balance as of 1981. So that those requirements are going to be very difficult for many of the States to meet. As an aside, hopefully we in Rhode Island will be able to meet that, only because in 1979, as you know, we reformed our unemployment compensation taxing system which increased our taxes about 2½ times from 1979 to 1980.

Senator CHAFEE. The change in that year was—and correct me if I am wrong—basically a tax increase, wasn't it?

Miss HACKETT. Basically, so. But, as you will recall, it was a labor-management partnership that agreed on that legislation and there were some other issues in the benefit side that had to be accommodated in order for that bill to pass. So it was not totally a one-sided situation, although it was certainly more a tax increase bill.

Senator CHAFEE. I do not remember the labor side of the provisions, the beneficiary side changes. Were they significant?

Miss HACKETT. I hate to use the word, Senator, but I think this will remind you of the retiree issue.

Senator CHAFEE. Oh, and the social security. That is right, yes. That was pursuant to Federal legislation.

Miss HACKETT. Well, yes, but not entirely.

Senator CHAFEE. Am I right?

Miss HACKETT. Yes, Senator, but not entirely.

Senator CHAFEE. I see. Well, here is our problem. We are running a deficit and we need to reduce that deficit so that people will be reemployed. The high deficit is one of the basic roots of unemployment.

So the question is what requirements are we entitled to impose on the States to reduce the burden on the unemployment trust fund. It is my view that the Federal Government is entitled to impose some restrictions.

Miss HACKETT. I would agree with that, Senator, and the interstate conference also agrees. There should be incentives for the State to restore solvency to their own funds. We just believe that the stringent conditions that are present now need to be reexamined in the light of today's economic conditions, and we might even make some suggestions, for instance, that there should be no net decrease in solvency, no reduction in the tax effort, perhaps a change in the State law which would increase tax revenues by *x*

percentage point, a limit or reduction in benefits if the State benefit structure is higher than the national average or no new net borrowing unless the State's average tax rate is higher than the national average by, for example, 30 percent, 20 percent, or whatever.

But perhaps some of those things, singularly or in combination, and obviously that is not an exhaustive list. There are many other items.

Senator CHAFEE. What do we do about the specifics, though? I know one problem you have wrestled with is people who in effect are seasonal employees whose work schedules are not full-time work schedules for example school lunch workers or schoolbus drivers. I know you have dealt with that problem in Rhode Island. That is a matter of State law, is it not, or an interpretation?

Miss HACKETT. As you know, the Federal law that extended mandatory coverage to State and local government workers gave the States the option of denying benefits in the between-term period to nonprofessional workers in the schools, if they had a reasonable assurance of returning to work in the second of those two semesters.

You do know that when that law was originally passed the employees who would be so denied benefits had to be not only employed in the schools but they must have been employed by the schools. They could not have been employed by another.

At home we had a situation where we had State school lunch workers working in local schools but not for the schools, and they could not have been denied under the Federal legislation. That has been changed since and amended, through which public law I am not certain. But, at any rate, it was amended so that the person so employed by a service agency in the local school could be similarly denied.

We do have a bill at home before our State legislature now to apply that denial of benefits.

Senator CHAFEE. But that is an option?

Miss HACKETT. It is an option.

Senator CHAFEE. An option to the State, is that correct?

Miss HACKETT. [Nods affirmatively.]

Senator CHAFEE. Thank you very much. Is there another panel? What happened to the interim panel? [Laughter.]

Did they go on? They must have adhered to their time with vigor.

Well, thank you very much, Miss Hackett. I want to personally express my appreciation to you not only for testifying here today but for all of the able assistance you have given us over many, many years in my office as we have wrestled with these problems on the cap, on FUTA, and all of the aspects of unemployment compensation. Whenever we have asked you for any information, you have been very helpful.

Miss HACKETT. I have enjoyed doing that, Senator, and hope to continue.

Senator CHAFEE. You have educated a whole series of very able staff of mine and now you are educating a new one, she is learning a great deal.

Thank you, Miss Hackett, I guess that does it. I want to thank all of the witnesses very much for coming.

Miss HACKETT. Thank you.

[Whereupon, at 1 p.m., the committee adjourned, to reconvene upon the call of the Chair.]

[By direction of the chairman the following communications were made a part of the hearing record:]

COMMONWEALTH OF VIRGINIA

JOHN C. BUCHANAN
40TH SENATORIAL DISTRICT
BUCHANAN, DICKENSON, LEE AND
WISE COUNTIES, NORTHWESTERN PART
OF RUSSELL COUNTY, CITY OF NORTON
P. O. BOX 1006
WISE, VIRGINIA 24293

SENATE

COMMITTEE ASSIGNMENTS:
EDUCATION AND HEALTH
FINANCE
GENERAL LAWS
PRIVILEGES AND ELECTIONS
RULES

February 26, 1983

Robert E. Lighthizer, Chief Counsel
Committee on Finance
United States Senate
Dirksen Senate Office Building
Washington, D. C. 20510

Dear Sir:

Please include the following remarks as a part of the record of the Finance Committee public hearing on UNEMPLOYMENT ISSUES, March 3, 1983:

Unemployment (as of December 4, 1982) in the five major coal producing counties of Virginia ranges from 16.8% to 30.6%, with an average rate of 26.4%. The exhaustion of unemployment benefits has resulted in extreme hardship for many of the unemployed in these counties.

Because Virginia as a whole has a relatively low unemployment rate of 8.4% the county with 30.6% unemployment, has a maximum eligibility period for benefits (including the supplemental extensions on and subsequent to Oct. 1, 1982) of 34 weeks, which is 4 weeks less than the maximum applicable just over the state line in West Virginia which has the highest statewide average.

The present criteria, by which eligibility is based on statewide averages, overlooks the reality of these pockets of high unemployment within states with low average unemployment rates.

To ameliorate this de facto discrimination, it is proposed that eligibility be based on regional criteria whereby adjoining areas with similar unemployment rates be assigned similar eligibility status for unemployment benefits distribution.

Respectfully,

John C. Buchanan

JCB:mh

19-070 O—83——17

STATEMENT OF

THE ASSOCIATED GENERAL CONTRACTORS OF AMERICA

PRESENTED TO THE

SENATE FINANCE COMMITTEE

MARCH 3, 1983

on

Jobs Creating Proposals
and
Unemployment

AGC is:

- More than 32,000 firms including 8,500 of America's leading general contracting firms normally responsible for the employment of 3,400,000-plus employees;
- 112 chapters nationwide;
- More than 80% of America's contract construction of commercial buildings, highways, industrial and minicipal-utility facilities;
- Over $100 billion of construction volume annually.

The Associated General Contractors of America and its 112 chapters nationwide is comprised of approximately 32,000 firms including 8,500 of the nation's leading general contracting companies that perform more than $100 billion of construction annually; our member firms normally employ some 3,400,000-plus workers, a significant portion of our national labor pool.

We appreciate the opportunity to submit this statement regarding jobs creating proposals and unemployment. Our industry, more so than any other single industry, knows only too well the unemployment problems that burden our nation -- 1.2 million construction workers are presently unemployed. This represents almost 25% of the work force of the nation's largest industry. Construction currently accounts for some $230 billion of our Gross National Product, directly employing 3.8 million people, and indirectly employing an additional 16 million people in construction supply industries such as cement, glass and steel, insurance, architecture and engineering. However, unlike the recent past, when construction accounted for 10 percent of the Gross National Product (GNP), today's level represents less than 8 percent of the GNP and a sharp drop in the number of people at work on construction sites. We are of the belief that the industry's declining share of GNP is directly related to our nation's current economic concerns.

Labor Intensity

Relief for the unemployed is obviously a complicated issue. There are a multitude of choices and each has a different potential impact on the employed, unemployed, the deficit, and the nation's economy. We have hopefully learned, that relief aimed at removing individuals from the unemployment rolls is only a temporary resolution. The best alternative is to develop programs that provides opportunities for the unemployed to work at jobs which fulfill a legitimate and lasting need within our industrial framework.

Any examination of jobs creating proposals should always conform to the axiom that the most cost effective alternatives should be the most attractive. We realize that a labor intensive approach is generally recognized as a measure of an industry's ability to employ maximum numbers of workers. We believe that the concept of labor intensity is key to any jobs creating proposals. However,an industry's ability to generate jobs internally as well as other industries should be the overriding criteria any jobs creating proposals. The type of industry which can generate this multiplier effect sould employ not only individuals within that industry but also create a series of jobs in related industries. In this respect, the products and service consuming construction by contract industry has the greatest potential to accomplish the objective in a cost effective manner.

The critical concept here is that job stimulation in the right industry can create several jobs in other related industries. The greatest cost-effective, result, occurs not simply when an employer's salary dollar creates a job, but when a job creates the necessity for other jobs within the economy.

A very concrete example of the significance of an industry's multiplier effect in relation to job creation, is construction by contract. Tables 1 & 2 are recently published Bureau of Labor Statistics data which clearly demonstrates the products consuming nature of the construction industry. As Chart #1 illustrates, construction generates more direct and induced jobs within the economy per dollar spent, than such industries as manufacturing, communciations, mining and transportation and many others. When total expenditures are considered, the amount of spending and capacity to generate jobs within construction creates a most favorable jobs creating climate.

That same logic applies to potential annual cost savings and generated revenue from increased social security benefits, increased federal income tax, and reduced unemployment to be gained from

stimulating the construction industry. As an illustration, Table #3 describes the annaul savings and generated revenue from an infrastructure rebuilding program of $61.6 billion. It clearly indicates that construction jobs create income which generates tax revenues and reduces public assistance.

Jobs and Infrastructure Needs

It is estimated, on a very conservative basis, that a construction program to meet the infrastructure needs of the United States would result in the employment of 650,000 onsite construction workers annually, with another 843,000 jobs created offsite within the construction industry and in manufacturing and service supply industries. A majority of these jobs can be filled by currently unemployed workers, and with that stimulus many additional individuals will have the opportunity to be added to the workforce, especially when economic recovery provides more positions within the industry. These conservative estimates are based upon identified requirements for infrastructure rebuilding of $61.6 billion per year sustained for five years, with some programs projected to extend for 20 years.

Infrastructure needs for highways, bridges and airports require outlays of $28 billion per year which could generate 305,200 jobs. Congress, in passing the Surface Transportation Act of 1982, recognized the need and jobs creating ability of such programs.

There are other pressing needs. Mass transit and railroad needs require $13.1 billion and could generate 142,790 jobs. Improvements are also needed in systems relating to water/supply distribution, dams and locks (also transportation-related) and sewage treatment. Estimates of job creation for these categories range from 51,150 for water supply/distribution projects to 61,750 for sewage treatment facilities and have a $5-7 billion price tag. Public buildings, the other major category of infrastructure needs, requires annual expenditures of $1.9 billion, which could

result in 18,430 jobs.

The number of potential employment opportunities associated with each type of infrastructure program is contained in Table III. These figures are based on known current needs. There are many elements of the infrastructure that have not yet been surveyed; there are constantly deteriorating components of the infrastructure, which have not yet been included and finally, and normal economic expansion has not been considered as the estimates were developed.

Our economic system depends on our ability to expand. Individual communitities need to expand basic elements of the infrastructure to attract new industry. In short, the infrastructure needs of the nation are not simply long term. They are entirely open ended and constant. There is absolutely no question that rebuilding the nation is a job that must be accomplished.

Maximum Monthly Earning

With respect to any proposed legislation, we believe a broader approach needs to be applied if an earnings maximum is considered. Any reasonable limit on employee wages, must address itself to the fact that work in many industries is of a seasonal nature and that, of necessity, employees often may earn more than a monthly maximum. Also paramount in any consideration should be the broader multiplier effect. Any maximum level, if necessary, should not ignore the fact that many members of the middle class are unemployed.

Federal Supplemental Compensation (FSC) Program & Job Vouchers

The FSC system is currently set to expire on March 31, 1983. AGC prefers that the monies spend on FSC be funneled to private sector job-producing programs to rebuild America's deteriorating infrastructure. In this time of limited government resources, we believe that it is more important to fund these needs thereby creating substantial private sector employment opportunities,

than merely to continue a wage-replacement program which produces no long lasting results.

However, we also recognize that these are unusual and difficult times, and suggest that if Congress does continue the FSC program for an additional six months, a variety of measures recently recommended by the Administration to improve the operation of the system be included. Among the positive changes recommended by the Administration is the replacement of the current 5-tier approach for determining the length of FSC benefits in a given state by a more simple 3-tier approach. In addition, a 30 work-week requirement (instead of the current 20 weeks) for recipients of FSC benefits would ensure that only the most deserving individuals receive these general-revenue supported benefits. Finally, the provisions which would bar FSC benefits to those who voluntarily quit or who were fired for good cause would serve to insure that individuals do not leave their current position simply because of the availability of long term UC benefits under the FSC program.

Turning to a voucher system contained in several proposals, AGC has numerous concerns. Although several proposed voucher systems may provide benefits to employers in certain industries, it would become an administrative nightmare for industries such as the construction industry, which traditionally have experienced a high degree of employee turnover. In addition, the benefits of a voucher system whould not be available to employers who had employed the individual at any time during a specified base period. In order to achieve the full benefit of the system, the employee would be required to remain on the payroll of the employer for a full year. Such proposals would severely limit any advantage construction industry employers could gain by hiring an FSC recipient given our industry's high employee mobility and turnover.

Unemployment Compensation (UC) and Structural Unemployment

While AGC perceives many administrative problems in applying

a voucher system to the FSC program, we recognize that utilizing FSC indirectly to support private employer training efforts, is preferable to using employer-generated unemployment compensation (UC) funds for this purpose. We would therefore oppose those elements in recommendations currently under consideration which would finance training programs directly out of employer-generated UC tax payments. We believe that using employer-generated UC taxes for training purposes is inappropriate, because (1) it would create an additional burden on the UC system at a time when its financial resources are already hard-pressed, and (2) it would incorporate into the UC system a component which is not consistent with the purpose of UC funds: the short-term supplement of wages due to cyclical unemployment.

The UC system was not designed to be a welfare system, nor was it designed to deal with problems created by structural unemployment resulting from basic changes in the nation's economy. In fact, one could argue that the experience component utilized in establishing an employer's UC tax obligations would be undermined if funds he pays are used for the training of unemployed individuals for new, alternative careers. We further believe that Congress has already enacted legislation, the Job Partnership Training Act, which provides a vehicle for such retraining.

While several suggestions have been recommended to ameliorate these problems such a plan would create (including proposals to bar debtor states from utilizing UC funds for training, and to require the establishment of a separate UC training fund), these suggestions do not overcome the basic problem of funding training programs through UC funds as outlined above.

Conclusion

We believe that a great opportunity exists to address our nation's unemployment ills without the necessity of creating a new employment program, while at the same time addressing another

national ill--the deteriorating condition of our nation's infrastructure. That opportunity exists in using established federal, state and local public works programs to 1) reverse the deterioration of our nation's infrastructure and 2) provide productive employment in the process.

The vehicles, methods and procedures of public construction programs entailing competitively bid contract construction to the private sector are already in place--they only need adequate funding to be employment effective. Let me repeat: the needs are evident. The work forces are available. All that is lacking is funding to meet both needs.

AGC believes that an effective program to deal with the nation's infrastructure needs should and can be an integral part of addressing our nation's unemployment problems. It is beyond question, and very timely today that such a program will create employment for millions of workers and stimulate the economy to recovery and growth.

America's manufacturers of steel, glass, plastics, fibers, pipe, cement, wire and paint are just some of the industries that are absolutely dependent on a vibrant goods consuming construction industry -- an industry which, with the other industries dependent on its good health, is responsible for more than 20 percent of American employment. Construction is the engine that drives the rest of our economy. When the construction industry is provided with the funding stimulus it needs, and which government at all levels must provide or risk the total disintegration of our public facilities, the construction industry will lead America to real economic recovery.

TABLE 1

Percent distribution of construction contract costs, all construction studies, 1958–76

Type of construction and year	Total contract costs	Onsite wages and salaries	Materials, supplies, and built-in equipment	Construction equipment	Overhead and profit
Commercial office buildings:					
1974	100.0	26.7	42.2	2.7	28.5
Elementary and secondary schools:					
1972	100.0	28.2	44.4	2.1	25.3
1965	100.0	25.8	54.2	1.0	19.0
1959	100.0	26.7	54.1	1.4	17.8
Federally aided highways:					
1976	100.0	23.8	46.7	[2]	29.5
1958	100.0	23.9	50.6	[2]	25.5
Federal office buildings:					
1976	100.0	25.8	42.5	2.9	28.8
1973[3]	100.0	34.0	50.0	[4]	16.0
1959	100.0	29.0	51.3	1.9	17.7
College housing:					
1972[3]	100.0	36.0	51.1	[4]	13.0
1961	100.0	29.3	52.6	1.6	16.5
Civil works, total:					
1972[3]	100.0	26.0	29.0	22.0	22.0
1960	100.0	29.1	26.2	22.1	22.5
Land projects:					
1972	100.0	25.0	32.0	20.0	24.0
1960	100.0	26.0	35.0	19.3	19.7
Dredging projects:					
1972	100.0	30.0	24.0	28.0	19.0
1960	100.0	32.3	17.3	24.9	25.5
Sewer works, total:					
1971	100.0	24.7	40.7	11.5	23.1
1963	100.0	25.3	46.6	9.9	18.2
Lines:					
1971	100.0	24.3	35.2	16.7	23.8
1963	100.0	24.3	44.5	11.2	20.0
Plants:					
1971	100.0	25.2	47.0	5.6	22.2
1963	100.0	26.6	49.2	8.2	16.0
Private multifamily housing:					
197[4]	100.0	27.9	44.2	3.0	24.8
Private single-family housing:					
1969[5]	100.0	20.4	43.4	.9	35.3
1962[6]	100.0	22.1	47.2	1.0	29.7
Public housing:					
1975[3]	100.0	32.7	48.7	4.4	14.2
1968	100.0	32.4	41.9	1.5	24.2
1960	100.0	35.5	45.0	2.5	17.0
General hospitals:					
1966	100.0	29.6	50.4	1.3	18.7
1950	100.0	28.2	53.2	1.2	17.4
Nursing homes:					
1956[6]	100.0	28.7	53.7	1.2	16.4

[1] Includes offsite wages, fringe benefits, construction financing costs, inventory, and other overhead and administrative expenses as well as profit.
[2] Equipment included with overhead and profit.
[3] Estimated.
[4] Equipment included in materials.
[5] Includes selling expenses.
[6] Estimated. Based on case study.

NOTE: Detail may not add to totals due to rounding.

Source: Labor And Materials Requirements For Federal Building Construction, U.S. Department of Labor, Bureau of Labor Statistics, January 1983.

TABLE 2

Percent distribution of cost of materials, supplies, and equipment by product group, all construction studies, 1958–78

Type of construction and year	Total materials, supplies and equipment	Mining and quarrying of nonmetallic minerals, except fuels	Lumber and wood products except furniture	Furniture and fixtures	Chemicals and allied products	Petroleum refining and related products	Stone, clay, glass, and concrete products	Primary metal products	Fabricated metal products[1]	Machinery, except electrical	Electrical and electronic machinery, equipment, and supplies	Construction equipment (rental value and depreciation)	Material and supplies, n.e.c.
Commercial office buildings:													
1974	100.00	0.67	7.55	0.42	0.99	1.98	23.90	12.55	22.21	11.43	7.62	5.99	4.69
Federal office buildings:													
1959	100.00	.41	3.31	.34	1.03	.86	21.60	7.32	32.81	6.91	18.20	3.59	3.61
1973	[2]	[2]	[2]	[2]	[2]	[2]	[2]	[2]	[2]	[2]	[2]	[2]	[2]
1976	100.00	.49	2.31	.41	1.10	1.11	22.61	20.82	19.33	10.65	10.11	6.52	4.56
Elementary and secondary schools:													
1959	100.00	.93	9.90	1.50	1.41	2.02	24.99	13.07	26.78	2.47	9.27	4.04	3.74
1965	100.00	1.62	9.13	2.90	.96	2.27	24.67	11.68	24.41	5.30	8.78	4.45	3.83
1972	100.00	.85	6.09	3.67	1.41	1.72	20.15	11.03	24.06	7.71	12.32	4.52	6.47
Private multifamily housing:													
1971	100.00	1.34	18.67	3.89	2.21	1.74	22.12	8.85	15.59	3.72	9.36	6.51	6.00
Private single-family housing:													
1962	100.00	.79	40.05	–	2.22	2.30	23.58	5.50	14.80	.46	6.49	2.03	1.99
1969	100.00	.89	37.40	3.28	1.82	1.80	21.33	5.05	12.90	1.90	6.77	2.00	4.87
Public housing:													
1960	100.00	.80	14.10	.30	1.80	1.70	27.10	8.00	28.50	2.30	8.40	5.30	1.80
1968	100.00	.80	14.40	.30	2.00	2.20	24.70	9.20	27.20	2.50	11.30	3.50	1.80
1975	[2]	[2]	[2]	[2]	[2]	[2]	[2]	[2]	[2]	[2]	[2]	[2]	[2]
General hospitals:													
1960	100.00	.42	4.16	.86	.81	.97	18.98	6.82	35.05	8.48	15.60	2.06	5.89
1966	100.00	.51	4.66	.44	.77	.80	18.40	8.61	31.11	12.11	15.62	2.50	4.47
Nursing homes:													
1966[4]	100.00	.53	9.06	.27	1.24	1.82	20.16	6.23	33.32	11.03	10.78	2.15	3.41
College housing:													
1961	100.00	.78	10.67	1.70	1.18	1.05	25.78	6.11	33.90	2.92	11.36	2.94	1.62
1972	[2]	[2]	[2]	[2]	[2]	[2]	[2]	[2]	[2]	[2]	[2]	[2]	[2]
Federally aided highways:													
1958	100.00	11.34	1.76	–	.80	17.09	16.77	–	19.48	–	–	[3]	32.75
1976	100.00	12.42	.85	–	.97	17.58	14.04	–	21.22	–	–	[3]	32.92
Civil works:													
Land projects:													
1960	100.00	17.46	4.15	–	3.87	12.85	9.09	1.33	13.20	.59	.24	35.39	2.05
1972	[2]	[2]	[2]	[2]	[2]	[2]	[2]	[2]	[2]	[2]	[2]	[2]	[2]
Dredging projects:													
1960	100.00	–	–	–	3.93	28.07	–	–	1.49	1.40	–	58.98	6.13
1972	[2]	[2]	[2]	[2]	[2]	[2]	[2]	[2]	[2]	[2]	[2]	[2]	[2]
Sewer works:													
Lines:													
1963	100.00	4.65	.79	–	.36	3.02	55.87	8.79	2.39	3.02	.74	20.19	.20
1971	100.00	3.43	1.53	–	1.14	4.82	40.77	7.38	2.20	4.48	1.03	32.22	1.00
Plants:													
1963	100.00	2.27	1.64	–	.93	1.85	16.78	14.48	13.16	22.34	9.51	14.25	2.75
1971	100.00	1.11	2.48	.22	.87	1.25	15.62	11.22	13.87	33.51	6.72	10.59	2.54

[1] Includes vitreous china plumbing fixtures except for Federally aided highways, private office buildings, elementary and secondary schools (1971), and single-family and multifamily housing.

[2] Not available.

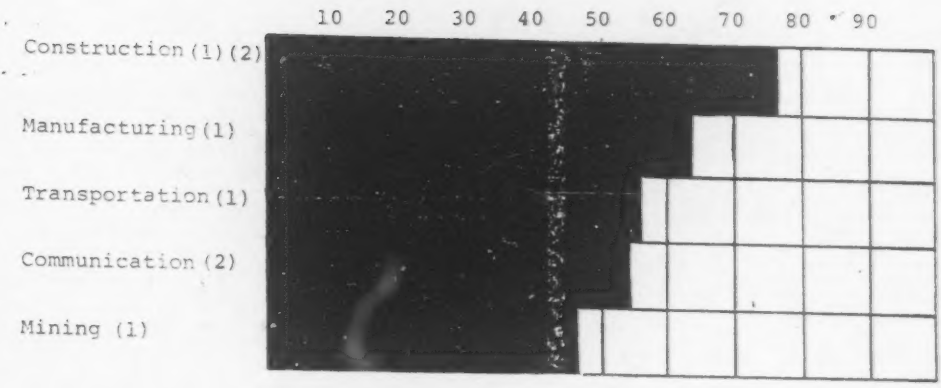
[3] Construction equipment estimate included in materials and supplies, n.e.c.

[4] Based on case study.

NOTE: Detail may not add to totals due to rounding. Dash (–) denotes that the survey had no sample projects in this cell.

Source: Labor And Materials Requirements For Federal Building Construction, U.S. Department of Labor, Bureau of Labor Statistics, January 1983.

Industry Comparison
of
Jobs Creation Impact
For
$1,000,000 in Expenditure



(1) Median Comparison
(2) Average Comparison

Chart is based on unpublished Bureau of Labor Statistics Data (Office of Economic Growth). Takes into account Direct, Indirect and Induced jobs, and was measured in 1972 dollars and modified to consider industry productivity increases or decreases.

TABLE III
POTENTIAL ANNUAL COST SAVINGS AND
REVENUE GENERATED
from
Infrastructure Rebuilding Program

	On-Site Craft Jobs	Off-Site Construction & Other Industries	Total
Increased Social Security Payments	$1,651,000,000	$1,514.000,000	$3,165,000,000
Increased Federal Income Tax	$1,603,000,000	$1,470,000,000	$3,073,000,000
Reduced Unemployment Compensation Payments	$1,153,000,000	$1,329,000,000	$2,482,000,000
TOTAL	$4,407,000,000	$4,313,000,00	$8,720,000,000

Annual income used to develop the table has been estimated based upon the average hourly earnings of the mix of construction, manufacturing and transportation jobs created. These were applied to a work year of 1,900 hours. Estimated average annual income for construction workers is $18,886 and for other workers is $15,029.

All figures are based upon 1980 data. This was most comparable to the expenditures estimated and, in most cases, was the most current data available. It is believed that changes in the current tax structure which have the effect of lowering income tax receipts and increasing social security tax receipts would not materially effect the total revenue from these sources. Adjusting unemployment compensation payments for current dollars would increase the amount on the table an estimated 15 percent.

There are other lesser revenues that would be generated for government that have not been considered. Among these are state and local taxes, corporate income taxes at all levels, and food stamps and other forms of public assistance.

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